Shopify Inc. Stock Dives 18% in the Last Month: Where Is it Headed Now?

Description

Shopify Inc. (TSX:SHOP)(NYSE:SHOP) stock has certainly seen a stratospheric rise — one that has made many investors loads of money.

A success story indeed, with the stock pretty much tripling from January 2017 levels. But in 2018, we are seeing a pretty steep sell-off that started in March to the tune of 18%.

Let’s dig deeper to see what the rest of the year has in store for this stock. Is it simply a much better time for those investors who have missed the boat on this stock to get in, or is there more downside to come?

I am still cautious.

The latest quarter, the fourth quarter of 2017, saw Shopify beat market expectations by a lot, reporting EPS of $0.15 compared to consensus estimates of $0.05.

Revenue growth was 71% in the quarter and 73% for the full year 2017.

While results are looking good, there are upcoming headwinds remain. And I believe we are still faced with a stock that is valued too richly.

This amid an environment in which the company is experiencing increasing costs due to reinvestment into the future growth of the business. What this means is that profitability is pushed further out, with GAAP operating loss expected to be in the range of $95 million to $105 million in 2018, and adjusted operating income expected to be at breakeven to a small loss.

Thus, with the stock trading at just shy of $158 at the time of writing, we can see that the price-to-earnings multiple is not even a meaningful metric at this point.

On the downside, the churn rate remains high and the revenue growth rate is decelerating, as can be expected with such high-growth companies, as the base is increasing rapidly; thus, the growth rate is off a higher base and costs are rising in order to fund growth, which is also to be expected.

On the plus side, the company is still seeing strong merchant additions, with 2017 seeing 232,000 additions, up from 134,000 additions in 2016.

Shopify announced that the Government of Ontario has chosen the company's e-commerce platform for cannabis online sales and in stores, thereby ensuring a reliable and informed shopping experience.

For Shopify, this is obviously good news. Adding such a merchant to its list of clients inspires confidences and addresses the churn rate concern that lingers regarding this company.

While recurring revenue is increasing, the stock's valuation is pricing in much of the good news in the short to medium term, and upcoming headwinds will serve to drive valuation down.

If you believe that the market is becoming less risk tolerant, it's yet another reason that this very richly valued stock can be expected to retreat.

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