Shopify Inc.’s Q1 Disappoints Investors: Why Future Quarters Could Be Even Worse

Description

Shopify Inc. (TSX:SHOP)(NYSE:SHOP) released its quarterly earnings yesterday, which disappointed investors and sent the stock spiraling down as much as 10%. Although the company showed strong sales growth with revenues of $214 million rising more than 68% from last year, that’s a smaller increase than we saw in its most recent quarter.

Ultimately, the company’s net loss grew by a little more than $2 million, but at 7% of revenue, it was a smaller portion of sales than a year ago, when the loss was more than 10% of its top line. Shopify did get a boost from interest income, which added over ~$4 million more to its bottom line this quarter and helped to shrink the gap from last year.

An unimpressive forecast weighs on investors

The company’s Q1 wasn’t bad and continued to show strong growth. It was, however, Shopify’s expectations for the future that sent the stock over a bit of a cliff.

The company projects that for the full year its sales will fall right around $1 billion. While impressive, it would represent growth of less than 50% for a company that has shown much more impressive numbers over the years. Last year Shopify’s sales were up 73%, and the year before that its top line grew by 90%. This suggests the company expects a big slowdown in sales, and even the high end of its Q2 expectations of $235 million would be an increase of only 55% — a big decline from this quarter’s growth.

Is the company running out of opportunities to grow?

If you believe the numbers, then there's real reason for concern here. That's not to say that 50%growth isn't good, because it is very impressive. However, with Shopify being unable to post a profit,investors will be expecting a lot of growth. That's why a lot of tech stocks south of the border can tradeat big multiples — their top lines continue to show impressive growth and are able to keep investorsoptimistic of what's in store for the future.

In Shopify's case, however, the company is projecting a big slowdown in its rate of sales growth. That being said, the company still has a lot of potential left, as in March the company rolled out shopping on Instagram outside the U.S. market to many other countries, and that is one avenue where it could grow it sales, with the social media platform having more than 500 million daily active users.

Is the stock a buy?

Shopify has a lot of potential, but with the company continuing to decline in growth, I'd be hesitant to invest today. Without any profitability and the stock trading at 14 times its book value, investors are paying a big premium for a company that is growing sales at a decreasing rate.

The stock has dipped as low as $143 just a few weeks ago, and with the stock finishing above $163 as of Tuesday's close, I'd wait a bit longer before considering buying on the dip, as we may see more of a sell-off in the days to come. This year has not been friendly to speculative investments, and with Shopify starting to look like one, investors may be rethinking whether or not it is a good investment.

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djagielski