



Shopify Inc. Stock Is Down 23% From its Highs! Time to Buy?

Description

On the day of Shopify's first-quarter 2018 [earnings release](#), we saw a lot of carnage in the stock; it was down ~10% during the day. But Shopify reported a 68% revenue-growth rate, which was slightly higher than expectations.

So, why was the stock down after this earnings report, when the results were better than expected from a revenue and earnings standpoint?

Well, there are a few reasons.

While the numbers handily beat expectations, it is clear that there were other, "whisper" numbers, as they are called, reflecting real expectations in the market that may have been higher.

It is a bad sign when a company exceeds posted analyst expectations, yet the stock falls. It's a sign that expectations that are built into the stock are out of whack and too optimistic. And given the [lofty valuation](#) of the stock, it seems clear that the market is expecting a lot.

Here are some headwinds that the stock is facing that warrant caution, especially given valuations.

Revenue growth is slowing

Revenue growth and growth in general is slowing, which, of course, is to be expected as the base (denominator) increases, making percentage growth-rate increases more challenging.

Gross merchant volume (GMV), which is the total amount of good sold on Shopify sites, grew "only" 64% compared to 81% in the same quarter last year. Growth in monthly recurring revenue increased 57% compared to over 60% in the first quarter last year. And management is forecasting second-quarter 2018 revenue growth in the range of 51-55% and full-year 2018 revenue growth in the range of 48-50%.

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

Shopify announced that the Ontario government 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 is confidence inspiring, and it addresses the churn rate concern that lingers with regard to this company.

Valuation still high

With the company posting adjusted EPS of \$0.05 in the quarter, the market will increasingly shift to valuing the stock on a P/E basis.

The stock is trading at a P/E multiple of a few hundred times adjusted earnings.

While recurring revenue is increasing, the stock's valuation is, in my view, pricing in much of the good news in the short to medium term, and upcoming headwinds will serve to drive the valuation down — headwinds include the necessary costs to fund the growth of the business and their impact on margins and future profitability.

And if you believe that the market is becoming less risk tolerant, then that's another reason this very richly valued stock will underperform.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Tech Stocks

Tags

1. Editor's Choice

Date

2025/09/19

Date Created

2018/05/04

Author

karenjennifer

default watermark

default watermark