



## Here Is What's Worrying Investors About Shopify Inc. Stock

### Description

Investors seem confused about [Shopify Inc.'s](#) ([TSX:SHOP](#))([NYSE:SHOP](#)) future prospects after seeing its first-quarter earnings report last week.

The e-commerce company's share price tumbled more than it has in six months on May 1, despite reporting profit and revenue that beat analysts' estimate.

Revenue was US\$214.3 million in the three months ended March 31 versus the average analyst estimate of US\$202.4 million. The Ottawa-based company reported an adjusted profit of \$0.04 a share — a big turnaround when compared to the average projection for a loss of \$0.05 a share.

So, what's in the first-quarter earnings that's making investors nervous about this company, which provides e-commerce platforms to both small and big businesses globally?

### Two key metrics

The two metrics which have become more important than Shopify's bottom-line profitability in the near term are its gross merchant volumes and growth in the company's recurring revenue, which is a way to see if Shopify has been successful in retaining large and stable clients.

Unfortunately, Shopify didn't fare well on both these counts. In the first quarter, gross merchant volume, the total amount of goods sold on all Shopify-run sites, expanded 64% from a year earlier compared with an 81% jump in the same quarter last year.

And growth in monthly recurring revenue, a metric that tracks the number of users and the average amount they're paying, also slowed. It increased 57% to \$32.5 million compared with growth of 62% in the same period last year.

Despite these shortfalls, Shopify's management remains very optimistic and plans to spend heavily to expand globally. "We are embarking on a multiyear journey towards making Shopify as simple and effective globally as it is in our core geographies," chief operating officer Harley Finkelstein said during a conference call. Shopify is projecting its total revenue for 2018 to be between US\$1 billion and

US\$1.01 billion — 1% more than analyst consensus.

### Is Shopify stock a buy?

After a post-earnings slump on May 1, Shopify stock had almost recovered all of its losses in the next two trading days, showing strength of its platform. Trading at \$171.86 at the time of writing, Shopify stock is still up 28% in 2018, outperforming many top tech stocks in North America.

Despite these small setbacks, the bigger picture looks very favourable for Shopify, as e-commerce continues to be the key growth driver for businesses in both developed and emerging economies.

And [Shopify](#) is well positioned to benefit from this massive opportunity. The company aims to expand into new non-English-speaking markets, targeting some of the world's largest economies, such as Japan, Singapore, France, and Germany. I don't see any major setback for Shopify in the Q1 numbers, and I expect the company's explosive growth will continue for many years to come. The stock is still a strong buy.

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