Should Investors Drop Shopify Inc. Stock?

Description

Shopify Inc. (TSX:SHOP)(NYSE:SHOP) stock has arguably been the highest of flying Canadian tech plays over the last few years. The company has had its fair share of drama, with short-seller Andrew Left targeting the company every time sentiment appears to be reaching a turning point.

Although promising, Shopify shares are not for the faint of heart. Although many Canadian investors have done remarkably well with the name over the years, I think there are numerous reasons why the investment opportunity is no longer attractive to the average growth investor at today's levels. Many of these reasons go beyond many of the questionable allegations made by Left in the past.

Premium multiple for decelerating growth?

At ~18 times sales, the stock has a massive premium attached to it, and given the continued slowdown in sales momentum, I think investors have the right to be worried. If growth isn't continuing to accelerate, one must really question why they're willing to pay up for a name that could realistically see its top-line numbers take a sudden and sharp fall in the event of a recession.

Given that merchants aren't locked down and can ditch their subscriptions at a whim, Shopify's non-plus subscribers were more likely to cancel their subscriptions in time. Moreover, I believe investor euphoria over subscriber growth momentum was overblown and that Shopify's churn issue will become more apparent as its subscriber base grows in size.

Think about it. You don't even need a sustainable business model or idea to become a Shopify subscriber. Even if you did, the odds of long-term survival are low for startups and small businesses, as approximately two-thirds of establishments don't survive past a decade according to the U.S. Bureau of Labor Statistics.

Apart from slowed sales momentum, the first quarter was quite solid

On the surface, the quarter was actually decent, with revenue surging 68% to $214.3 million for the quarter, crushing the original target and analyst expectations; however, the modest forecast had many investors scratching their heads.

In addition, the "impressive" 68% in year-over-year top-line growth was substantially lower than the 90% it clocked two years prior. Although it's common for top-line growth numbers to drop off with time, I believe the trend will continue on the downward trajectory, with very low probability of bouncing back thanks to the revolving door of subscribers.

Moreover, I believe this churn will begin to plague the company as it matures in spite of its innovative efforts to deliver a best-of-breed" product to its consumers.

Bottom line

Shopify shares are ridiculously expensive, especially when you consider that year-over-year sales growth is starting to trend lower. While Andrew Left is sitting on the sidelines waiting for another chance to knock shares down, I think investors would be wise to take at least some profit off the table.

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