



Shopify Inc. Stock Continues to Rally: Is it Still a Good Buy?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) has risen more than 15% in the past month as the stock looks poised to return to \$200. Earlier this year, Shopify was riding high as it looked to continue to have another strong year, but when another [critical report](#) about the company's operations came out, the stock plummeted to less than \$150.

The big question for investors who have been on this ride is whether this time the stock will continue its ascent or whether this volatility will continue.

How much higher can the stock go?

The one problem with investing in Shopify today is that the share price is already high and potential returns could be limited. The share price currently trades at more than 24 times its sales in the past 12 months, which is well beyond even that of **Tesla Inc.** ([NASDAQ:TSLA](#)), which trades at only four times its top line. Eventually the hype is going to have to translate into results, and there will be have to be more substance behind the share price to prevent a big correction.

Although I previously believed that Shopify's stock could rise as high as \$250, given the [soft sales growth and the company's poor outlook in its most recent earnings](#), it's hard to see that happening anymore. That's not to say that Shopify is supposed to keep doubling its sales every quarter, but the rate at which it expects to see sales slow down is concerning, and suggests that the company is starting to see a ceiling.

Why this is a problem for Shopify

Shopify is a growth stock, and it isn't going to attract investors because it's a good value or trades at low multiples. Rather, it's going to rise in price if people expect the stock to keep growing. It's one of the reasons we see a stock like **Amazon.com, Inc.** continue to defy skyrocketing valuations as the company continues to innovate and find ways to increase its top line.

However, being able to sustain a high rate of growth isn't easy to achieve, as it requires a lot of money and innovation, but that's what Shopify must do if it wants its share price to continue to grow. If

investors aren't convinced that the stock will continue to grow, then that's when we'll start to see an even bigger sell-off. Either way, we'll see many questions answered in Q2, including a potential drop-off in growth. We'll also see whether the company was simply being conservative in its outlook for the year.

Is the stock a buy?

At today's value, I wouldn't consider picking up the stock, as it presents a bit too much risk and volatility for my liking. With a beta of around 1.3, the stock has seen a fair bit more volatility than the market has, which is concerning given the fluctuations we've already seen on the TSX this year. The stock has been very sensitive to market news, and the danger is that another negative report could come out tomorrow and derail the progress that the stock has been making lately.

CATEGORY

1. Investing

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