



Should You Buy Shopify Inc. (TSX:SHOP) Ahead of Earnings?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) is releasing earnings later this month, and with the share price doing so well lately, investors may be wondering if it's a good time to load up on the stock.

In its [most recent earnings release](#), investors will recall that the stock dipped in price as the company's growth rate was down from previous periods and it also had a softer forecast for the remainder of the year.

Although Shopify has been up more than 75% this year, it hasn't exactly been a smooth ride for investors, with many bumps along the way. However, before the last earnings, the stock was trading at around \$170, and it could get another big boost if it produces a strong quarter next week.

Two key items to look for in Shopify's Q3 earnings

Whether Shopify gets a bump in price from its quarterly earnings will depend on its growth rate as well if it can finally turn a profit.

Shopify has struggled to stay out of the red, and even though it has been growing sales at a very strong rate, expenses have more than kept up, and have often outpaced sales growth. With the company still focusing on growth, I wouldn't expect this to be the case when Shopify starts turning things around.

However, another area in which it can achieve a good score on its quarterly results is how strong its rate of sales growth is. In its most recent quarter, Shopify's sales were up nearly 70%, but that number was down from previous quarters and the company also forecast a softer growth rate for the remainder of the year.

If the company is able to achieve a growth rate of over 70%, then the stock will likely get a big boost in price, while the opposite could happen if the number is much lower than that.

Is the stock too expensive?

With Shopify's share price trading at 18 times its book value and nearing all-time highs, investors who buy today won't be buying the stock at a discount. Its high price will make it more of a challenge for investors to earn a good return, and you may be better off waiting for the stock to dip, which based on its history appears to be inevitable.

Bottom line

It's hard to predict how a stock will do on earnings day, and Shopify in particular has been a bit [unpredictable](#) this past year. Given the current price level and the high hurdle Shopify will have to overcome to generate even more bullishness in its stock, I wouldn't bet on the share price getting a boost from the company's upcoming quarterly results.

That doesn't mean that it won't happen, but given the premium that investors would have to buy the stock at today, I don't see a whole lot more upside from here.

Instead, it might be a good idea for investors to wait in the sidelines in case there is a dip in price as a result of the earnings, and then pull the trigger.

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