



## Is Shopify Inc. (TSX:SHOP) Stock Safe After Massive Gains This Year?

### Description

After seeing a carnage in the share prices of **Netflix Inc.** and **Facebook, Inc.** during the past two weeks, it's natural to think about the sustainability of gains in some of the top technology companies. The e-commerce platform provider, **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) is one of them.

Shopify stock has almost doubled during the past one year, thereby outperforming other high-profile tech operators like **Alphabet Inc.** and even **Amazon.com, Inc.** At the moment, the stock is riding through very high expectations by investors who believe the company will continue to rack in more revenue — fueled by exploding demand for e-commerce solutions from small businesses.

After these massive gains, the biggest concern is that whether [Shopify stock](#) has entered a bubble territory, and if the company can sustain this momentum. So far, investors have ignored some signs of a slowdown.

In the most recent quarter, Shopify showed 68% growth in its revenue year over year, slowing down from a 71% expansion in the fourth-quarter. For the second quarter, the consensus analyst estimate calls for revenue of \$235 million, implying a 55% increase. Analysts' consensus estimate falls at the high end of management's guidance range of between \$230 million and \$235 million for the second-quarter.

But as its stock continues an [upward momentum](#), it's becoming expensive and increasing pressure on the management to satisfy the growth-hungry investors. Shopify is currently trading around 31 times trailing sales, which is not cheap by any means.

Despite these alarming signs, I think Shopify offers a massive opportunity, as there aren't many players that offer an e-commerce platform as powerful and unique as Shopify has become for small- and medium-sized companies.

According to a recent report in *The Globe and Mail*, which cited David Kostin, chief equity strategist at Goldman Sachs, the small-business optimism in the U.S. is at its highest level in 35 years. Shopify, where small- and medium-sized companies account for 95% of its revenues, was one of Kostin favourite stocks from this space.

### The bottom line

There is no doubt that Shopify stock looks expensive, and investors should be very careful before buying this name, especially before the Q2 earnings report scheduled for July 31. That said, I don't think Shopify business has seen its peak. 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. With an expanding global reach, Shopify is well positioned to grow further and justify its high valuations.

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