Why This Canadian Tech Stock Is Running Red Hot

Description

If you're involved in the e-commerce industry, you've probably heard of **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP). The company is best known for its e-commerce platform, which is reportedly being used by over 600,000 merchants. It is also involved in developing point-of-sale systems for retail businesses.

Aside from being an e-commerce juggernaut, Shopify is also known for being one of Canada's hottest tech stocks. Its price has increased over 540% since its IPO in May of 2015, and many analysts say it still has room to grow. But with continued operating losses and rapidly rising costs, some are wondering if Shopify's business model is sustainable.

Will Shopify continue its winning streak, or would investors be better off passing on the company?

It helps to start by looking at the company's sales.

Strong sales growth

Like many tech stocks, Shopify is seeing strong price appreciation driven by the popularity of its main product. The company reports that over 600,000 users are using its platform. These users' subscription fees contributed the lion's share of the company's $760 million in revenue in 2017. The company saw quarterly revenue growth of 68.27% year over year, as of its most recent income statement.

Shopify is driving even greater sales through its merchants, who have delivered total sales of $63 billion . This proves that Shopify is building a thriving marketplace that helps its many customers drive sales in their businesses.

So far, so good. But are there reasons to doubt that Shopify's growth can continue? Some analysts maintain that there are.

Valuation

Like many fast-growing tech stocks, Shopify is priced high compared to the underlying business. The company has a forward P/E ratio of 371.39, which is extremely high. It also has high price-to-sales and price-to-book ratios of 31.33 and 13.40, respectively.

It's worth noting that such figures do not necessarily mean a company is overvalued. If sales growth continues to be high, then high P/E ratios may be justifiable — **Amazon**, for example, has consistently risen with P/E ratios in the hundreds all along the way. It remains to be seen, however, whether Shopify can maintain earnings growth as steady as Amazon's.

Financial performance

Another reason some are bearish on Shopify is the company's financial performance. Despite its strong sales and revenue growth, Shopify underperforms by some accounting metrics. Its profit margin, return on assets, and return on equity have all been negative as of the most recent earnings report. Of course, this stems from the fact that the company's net income is negative — this could change as the company signs up more vendors or increases the number of vendors on its "Advanced Shopify" plan. But such metrics remain an area of concern for more value-oriented investors.

All in all, Shopify is a rapidly growing company in a rapidly growing industry. Its sales and revenues are growing well into the double digits year over year. It continues signing up new users every quarter. And it powers more e-commerce stores than any of its competitors. It's been a hot three years since Shopify's IPO, and the next three may be even better.

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