3 Things to Consider Before Investing in Shopify Inc. (TSX:SHOP) Stock

Description

It's been a volatile year for **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP). Starting off the year with a sustained rally, it started to fall off in April, then gradually recovered over the summer, followed by another big crash in late July. Investors who bought at the start of the year would be all smiles if they held to today. But there have been a number of cliffhanger moments for the stock that made investors nervous.

Shopify is still down from its June high of $232.

Is it a good buy now?

I'll start by looking at technical factors.

Technical factors

Shopify stock has flirted with the $230 range twice this year, only to decline precipitously after hitting it. This suggests the stock has hit a resistance point. However, as has been pointed out before, we saw a similar pattern at $150, and the stock broke through.

It seems possible that Shopify stock could go higher than $230, based on past performance. But will it? It's difficult to find a clear support level for the stock, which has had wild ups and downs all year. So, it helps to turn to an analysis of the underlying company.

Financial performance

Shopify's financial performance is, like many new tech stocks, a tale of growth and losses.

The company's revenue is growing at a rate of 62% year-over-year. That's not too shabby. However, the *rate* of growth is down from 68%. For a tech stock with negative earnings, that may be a bad sign.

Positive investor sentiment for these companies is based on the idea that they will achieve profitability. This can be done in one of two ways: reducing costs or growing revenue faster than costs. So if costs increase at a steady rate, accelerating revenue growth is needed.

Unfortunately, Shopify is not containing its costs. In the most recent quarter, the company lost $30 million on revenue of $245 million (USD). While the stock did eke out slightly positive adjusted net income, the company's core business continues to lose money.

Valuation

At last we get to valuation. Shopify's trailing 12-month earnings are negative. Even ambitious earnings forecasts would give it a forward P/E ratio in the thousands. Its price-to-book ratio is 12, while a ratio of one is considered ideal. This is a very expensive stock by any standard, even when factoring in the high growth rate and higher future earnings that might come with that.

Granted, there have been companies that have done well with persistently high valuations. **Amazon.com** has been a strong long-term performer with P/E ratios in the hundreds every step of the way. But it remains to be seen whether investor enthusiasm for Shopify will be enough to get it back to its June high.

Personally, I'd wait on the next quarterly report before investing in this stock.

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