Shopify Inc (TSX:SHOP): Buy Now or Wait for Earnings?

Description

Over the past month, **Shopify** (TSX:SHOP)(NYSE: SHOP) stock has slid about 11%. The decline comes on news that the company will be investing $500 million in Toronto office space in a bid to attract new talent in Canada's top tech city. Shopify has long faced criticism for burning cash, and the office space investment adds to the company's expenses significantly.

Despite the recent dip, Shopify is steadily growing its revenue, which is expected to spike as cannabis stores use the platform for online sales. With a major growth driver on the horizon, should investors buy Shopify shares?

It makes sense to start by looking at revenue growth.

Strong but declining revenue growth

Shopify has been experiencing strong revenue growth recently. In the most recent quarter, revenue was up 61.5% compared to the same quarter a year before. In fiscal year 2017, revenue was up around 73% compared to fiscal 2016. These are strong numbers. However, revenue growth has been slowing in recent quarters: the 61.5% revenue growth posted last quarter is down from 68% the quarter before and 75% in Q1 fiscal 2017.

Burning through cash

There's no denying that Shopify is growing revenue quickly (if less quickly than in the past). However, the company has still failed to post positive earnings. Not only that, but the company's losses are growing: in fiscal 2017, the company lost about $40 million compared to about $36 million in fiscal 2016.

Why is this happening? Put simply, it’s due to rapidly growing expenses. In 2017, Shopify’s total operating expenses were about $720 million, up from $426 million in 2016. That means that the company’s costs are increasing just as fast as revenue. If Shopify can’t get these costs under control soon, its stock may be punished by the markets. Viewed in this light, the company’s recent $500 million office space investment may be more a negative than a positive.

A disguised cannabis play?

One bright spot for Shopify is, of all things, cannabis. No, Shopify isn’t getting into the cannabis business. But cannabis stores are getting into the Shopify business: many provincial cannabis stores tapped the company’s e-commerce platform to power their online sales. This will bring a tonne of subscription revenue for Shopify in the next quarter, although we’ll have to wait for the next income statement before we know exactly how much revenue it will be.

My recommendation: wait for earnings

All in all, if you’re interested in Shopify, it’s probably best to wait for the company’s next earnings report before buying. Absent surprise developments from the company — massive sales increases, reduced operating expenses, or positive earnings — the stock is probably overvalued for now. It’s always hard to accurately value recently public tech startups with growing revenue and negative earnings. But in Shopify’s case, the fact that expenses are growing in lockstep with revenue seems to cast doubt on the company’s earnings prospects in the short term.

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andrewbutton