



## A Number That's Too Crucial for Shopify Inc. (TSX:SHOP) Stock Recovery

### Description

Even after 23% decline from its record high, it doesn't seem investors have lost faith in the e-commerce platform provider **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock.

The stock has an [impressive record](#) of producing powerful rallies after every pullback since its initial public offerings (IPO) in 2015. And investors are expecting a similar rebound when the company reports its third-quarter earnings on October 25.

For that to happen, Shopify has to show that growth in its gross merchandise volume (GMV), the total amount of sales made by all the vendors on its platform, has come back strongly after slowing for three straight quarters.

This measure of growth has become the focal point for investors since short-seller Andrew Left of Citron Research warned last year that [Shopify will soon hit a ceiling](#) as the vast majority of small businesses that use the company's online platform are recruited by promoters, calling the company a "get-rich-quick" scheme.

For the second quarter, GMV rose \$9.1 billion, up 56% from the same time last year. That growth rate was 64% in the first quarter of this year.

Besides this number, there is a little evidence that Shopify stock has peaked. In the second quarter, Shopify beat analyst's average estimates for revenue and profit and gave an upbeat outlook for the rest of the year.

Shopify is forecasting sales between \$253 million and \$257 million for the third quarter, representing year-over-year growth of 48.5% at the midpoint of its guidance. According to analysts' consensus estimate, Shopify may post sales of \$257.17 million, representing growth of 50% year over year, and a loss of \$0.02 a share, compared with a gain of \$0.05 in the prior-year quarter.

It's not ideal to buy a high-growth stock before earnings, and I will not advise investors do so in the case of Shopify. But if you're a long-term investor looking to buy a solid growth stock, then I will definitely recommend you buy Shopify on this dip.

### Bottom line

Shopify has a plenty of room to grow at a time when e-commerce is replacing the traditional brick-and-mortar retailers globally. The company has a great competitive advantage when it comes to providing an online platform to small and medium businesses. Shopify's online stores are cost effective and offer one window solution to small businesses.

That said, Shopify's upside momentum will be limited in the case of a positive earnings surprise as macro environment becomes less supportive for growth stocks. The biggest threat for their profitability is rising interest rates that could hurt the profitability and crimp their growth.

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