Institutional Investor Pulls Out of Shopify Inc (TSX:SHOP): Should You Worry?

Description

It's been a volatile year for **Shopify Inc** (TSX:SHOP)(NYSE:SHOP). And apparently one major investor thinks it's time to cut back its holdings.

Recently, Intact Investment Management announced that it was cutting its stake in Shopify by 8.6%. Although that hardly constitutes a vote of no-confidence in the company, it's a big enough reduction to raise questions.

2018 has been in many ways a mixed year for Shopify. Although the ecommerce giant continues to grow revenue at a fast pace, its expenses are growing even faster, and the company has been struggling with profitability. Intact's announcement marked the second sale of Shopify shares by a big holder this year, after a board member reduced his stake last month.

These two high profile cash-outs raise the question of whether "in-the-know" investors are losing faith in Shopify. But before we jump to that conclusion, let's take a look at why Intact sold its Shopify shares.

Why the sale?

The first thing we should note about Intact's move is that it remains a Shopify shareholder. The company sold 8.6% of its stake, which means it's still holding 91.4% of it — hardly a major vote of no confidence. However, history shows that when an institutional investors sells a small part of its holdings, larger sums can follow. So this could be more than just profit taking or allocating funds to use elsewhere.

Beyond that, however, it's difficult to know exactly why Intact sold Shopify when it did. The move was disclosed in an SEC filing and the company hasn't commented on it any further. We can, however, speculate as to why the company would want to reduce its stake in Shopify.

Earnings woes

Shopify, as most readers will be aware, is a fast-growing enterprise. It grew its revenue at 58% year over year in Q3–an impressive figure to say the least. However, Shopify's 58% growth rate is down from as much as 68% in past quarters. As well, the company has struggled in the net income department. In Q3, Shopify posted a net loss of $23 million or $0.22 per share.

In adjusted (non-GAAP) terms, the company did eke out a $0.04 EPS figure, but I'm more inclined to go with the official net loss, especially since the company has negative operating income as well.

Granted, Shopify is a very young company. The fact that it isn't raking in profits hand over fist isn't necessarily a sign of doomsday. However, it can be a concern, especially given that by some metrics, its losses are actually growing.

Other investors are doing the opposite

It should be noted that although Intact reduced its stake in Shopify, not all institutional investors are doing the same. Connor Clark & Lunn Investment Management, for example, upped its stake by 23%. There are still plenty of institutional investors out there upping their Shopify holdings–61% of outstanding shares are owned by institutions. Intact's move is interesting not because it's the norm, but because it may signal the cresting of a trend toward greater institutional ownership of this company.

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