# How Far Can Shopify's (TSX:SHOP) Stock Soar in 2019?

## Description

You'd be forgiven if you thought that all stocks took a dive in 2018. It was after all, the worst year on record since the financial crisis. Lost amidst the chaos was the continued outperformance by **Shopify Inc** (TSX:SHOP)(NYSE:SHOP).



Shopify closed the year at $188.72 per share. Sure, it was down 18.94% from its 52-week high of $232.65, but it also posted a 48.5% gain for the year. Since its initial public offering in 2015, the company has returned 452% in a little under three years.

In the first couple of weeks of 2019, the stock has jumped 2.3% and is poised for another big year. How far can Shopify's stock soar? Let's take a look.

## Macroeconomic backdrop

Like most companies, Shopify was humming along until trade tensions between the U.S. and China took centre stage, which caused tech stocks to take a dive and stunted growth. The good news is that the U.S. and China have been in a week-long trade negotiations. Once resolved, expect tech companies to see a big boos, which will be a tailwind for the company.

## Top performing tech stock

Since going public in 2015, Shopify has defied expectations. In fact, it has topped analysts' estimates on both the top and bottom lines in every fiscal quarter since, which is 13 straight quarters of outperformance.

Bears will point to Shopify's net losses as a reason to avoid the company. However, it has turned profitable faster than expected. Through the first three quarters of 2018, analysts were expecting the company to post an adjusted loss of 11 cents per share. The company more than doubled expectations, recording positive adjusted earnings of 10 cents per share. The company is now profitable.

Analyst are expecting triple-digit earnings per share growth through 2020 and revenue to grow by 40%+ over the same period. Given its historical execution, these numbers may even be on the low side.

## Good value at today's prices

This is where it gets tricky. Shopify is not a company that investors value based on historical performance. Traditional metrics such as price-to-earnings don't make a lot of sense. For high-growth stocks such as Shopify, investors are willing to pay a premium for future performance. A popular value metric to use for high grow companies is the enterprise value (EV) to revenue ratio. It is a crude measure, but hard to game. Based on forward 2019 revenue estimates, Shopify is trading at an EV/Revenue ratio of 9.49 down from 18.79 on a trailing twelve-month basis.

On average, cloud and software as a service (Saas) companies trade at EV multiples of 10 times revenue. Given Shopify's growth potential, it provides good value at today's prices.

Analysts are bullish on the company with 16 buys and an average overweight rating. They have an average one-year price target of $219.69, which implies 14% upside from today's price. However, this may be on the low side given that analysts have underestimated the company thus far.



### Foolish takeaway

Shopify has been one of the best perming stocks on the TSX, and you can expect this trend to continue. Once the macro-economic headwinds subside, the company's 52-week high is well within reach should it continue to top analysts' expectations.

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