Should Value Investors Avoid This Gravity-Defying Tech Stock?

Description

Investors looking for a potentially gravity-defying stock that occupies both the tech and legal cannabis spaces should already be aware of **Shopify** (TSX:SHOP)(NYSE:SHOP). Returns for the year to date have topped 40.8% for this outperforming tech stock, with the Canadian IT sector seeing considerably lower returns of 17.3%. In terms of profitability, a one-year contraction in earnings of 43.9% fails to match the Canadian IT industry's average growth by 30.3% and is even deeper than its own 33.5% slowdown in earnings.

So far, so good, where the track record is concerned for this relative newcomer. Shopify is a bit of an odd bird at the moment, though, with an unreadable PEG ratio leaving the valuation somewhat opaque (although we will come to a clearer conclusion on that front in a moment), mitigated by a lack of debt and some indications of further upside on the way. Meanwhile, a whopping 45.8% expected annual growth in earnings makes this one of the best growth stocks on the TSX index.

Shopify drops the ball on value and quality

A negative P/E ratio is a bit of a concern, however — and this is where some clarification on value kicks in. Nobody looking for intrinsic value should buy a stock with a high P/B ratio; Shopify is currently changing hands at 9.6 times its book value, meaning that this stock is out for value investors but in for anyone looking for upside.

Shopify feels like it should be a quality stock, but it's sad to say it is not: though there is indeed some high growth forecast, a negative ROE and an EPS to match make for a ticker that's all shimmer and no substance. That's all well and good if all you want to do with this stock is sell it once it's accumulated even more value, however.

Does a rival offer a better play?

A steady amount of inside selling over the past 12 months is a cause for concern for investors who like to use insider confidence (or otherwise) as a bellwether for a stock, with some significant volumes of shares changing hands.

Compare these stats with those of **Amazon.com** (NASDAQ:AMZN). Up 4.14% over the last five days, this sturdy American ticker has gained value during a week in which the ubiquitous online shopping company has barely been out of the headlines.

Up 262.5% in terms of earnings growth over the past 12 months, Amazon stock is on an exponential upwards curve with seemingly endless upside. In fact, this stock seems set to defy gravity for years to come, with a 30.8% expected annual growth in earnings.

The bottom line

Amazon stock is poor value for money at the moment, but this isn’t the kind of asset that gets bought for its low multiples; indeed, those fundamentals are far from low, with a P/E ratio approaching 90 times earnings and a bloated P/B of 20.5 times book. Like Shopify, there’s no dividend on offer if you buy Amazon stock; also like Shopify, there’s an overvaluation here of almost double the projected cash flow value.

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Date
2025/09/19
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2019/01/14
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