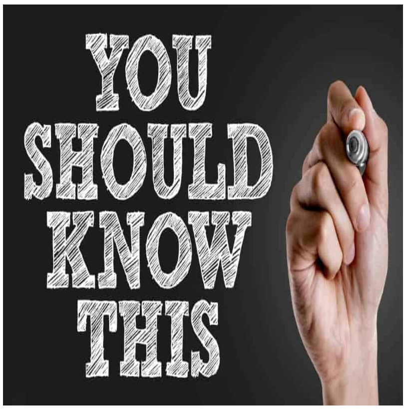

Here's Why Drugs and Home Entertainment Beat Shopify (TSX:SHOP) Stock

Description

Pitting what is arguably Canada's best tech stock against one of the sharpest of the group of the American FAANGs, we can see an interesting similarity in multiples and behaviour – but one of these two stocks comes out on top. Let's see what's so interesting about this comparison and find out how a leading supplier in the new legal cannabis industry factors into the equation.

Shopify (TSX:SHOP)(NYSE:SHOP)

Overvalued by over $100 a share, Shopify's negative one-year past earnings growth trails the IT sector average of 30.3%, and follows a five-year average that's negative by a similar percentage. While Shopify holds no debt, it also pays no dividend and has seen considerable insider selling in the last three months. In short, it seems that some clued-in investors decided that this stock's time has come. With a bloated P/B of 9.5 times book and rising share price, the hunt for upside continues without them, however.

Netflix (NASDAQ:NFLX)

Trading at four times future cash flow value, the ticker that puts the "N" in "FAANGs" isn't what you would call a cheap stock at the moment. It's got significant growth behind it, as anyone who pays attention to investment news will know, with a one-year past earnings growth of 186.9% that knocks the spots off even its own five-year average past earnings growth of 44.3%.

A 25% ROE for the past year gets an honourable mention, though with a high debt level of 166.4% of net worth, one might hesitate in drawing conclusions about the best use of shareholder funds for the time being.

If this were a stock on the TSX index, that stonking P/E of 114.6 times earnings might raise a few eyebrows, but over on the NASDAQ it seems to fit right in. A P/B ratio of 29 times book, anybody? Sure, why not. Netflix stock is still soaring, although with a 32.2% expected annual growth in earnings showing a slowdown from last year's heady heights, you might reasonably expect a selloff this year.

Aphria (TSX:APHA)(NYSE:APHA)

Over to the industry that seems to have powered much of Spotify's sudden high last year, representative legal weed stock, Aphria, today has a P/E of 47.9 times earnings, which, after wading through the stats for Netflix, seems perfectly acceptable. A P/B ratio of 1.5 times book is certainly sane, meanwhile, and a 54.7% expected annual growth in earnings looks achievable considering the last 12 months' growth of 94%.

Looking beyond the negative P/E (always a red flag if you're into profitable stocks) and high P/B, investors looking for upside may want to consider Shopify's 45.8% expected annual growth in earnings. Aphria's price is overvalued by about $6 a share against the future cash flow value – which isn't great given that this stock is trading at less than $10 a pop – but signals that momentum isn't a problem for what is one of the best marijuana stocks on the TSX index.

The bottom line

If you happen to be looking for capital gains, Shopify doesn't quite match the out-there multiples and high momentum of turbo-charged tech stocks like Netflix. Nor does it match the potential for upside displayed by the pure-play cannabis stocks like Aphria. In short, there are better tech stocks – and actual marijuana stocks – out there, and higher gains to be had.

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