



Shopify Inc (TSX:SHOP) or Amazon.com (NASDAQ:AMZN): Which Is a Better Buy?

Description

Shopify Inc ([TSX:SHOP](#))([NYSE:SHOP](#)) is the juggernaut of the Canadian tech scene. Boasting [58% revenue growth](#), 600,000 active stores and a 501% return post-IPO, it has eclipsed its domestic competitors by almost every conceivable metric. But globally, the company faces tighter competition. The world's #1 ecommerce company, **Amazon.com** ([NASDAQ:AMZN](#)), is more than 30 times Shopify's size by market cap, and over 200 times bigger by revenue. With sales in the hundreds of billions and a market cap nearing a trillion, it's easily the king of its space.

Shopify has a long way to go before it can match those numbers. But as far as annualized returns go, it may have a fighting chance. Shopify's revenue growth was more than twice Amazon's in its most recent quarter, and its 12-month return was higher, too. These factors could make Shopify a better buy than Amazon. But before getting ahead of ourselves, let's compare the two companies' recent performance.

Past returns

Over the past 12 months, Amazon shares have risen about 27%—a phenomenal return for a stock that already has a nearly trillion-dollar market cap. However, Shopify has beaten that with a 12-month return of 41%. Of course, past performance doesn't necessarily indicate future performance. But for momentum investors, the numbers definitely favour Shopify.

Profitability

Shopify's profitability situation is peculiar. In its most recent quarter, the company posted a [GAAP loss](#) of \$23 million, but an adjusted profit of \$4.5 million. Shopify's adjusted figures exclude share-based compensation and payroll taxes; these are both very real costs, so the GAAP numbers are probably more reliable.

Amazon, by contrast, was GAAP-profitable with a \$2.9 billion net income in its most recent quarter. It

should be noted that Amazon itself has a rocky earnings history, with some quarterly losses occurring decades into the company's history. However, on the whole, it bests Shopify in this regard.

Growth potential

Now we get to a category where Shopify has the advantage: growth. The law of diminishing marginal returns gives Shopify an advantage over Amazon: the bigger a company gets, the harder it is for it to generate big (percentage-wise) growth. This doesn't guarantee that Shopify's growth will always beat Amazon's, but its uppermost possibilities are higher. And this is borne out in the results: in its most recent quarter, Shopify's revenue growth was 58%, while Amazon's was just 29%.

Bottom line

Shopify and Amazon are both great companies that have been beating the pants off the market for the past three years. And both of them have the underlying fundamentals to back it up. As for which is the better bet, it depends on your risk tolerance. Shopify has more *potential* upside, but because of its ongoing losses, is a riskier play. Amazon's potential upside is smaller, but it's much safer due to its proven profitability. For a sure thing, go with Amazon. For a chance at a tenbagger, go with Shopify.

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