Is Shopify Inc. (TSX:SHOP) Stock a Buy After a 40% Surge?

Description

Many investors in high-growth stocks are wondering if they should buy the e-commerce platform provider **Shopify** (TSX:SHOP)(NYSE:SHOP) after a powerful rally in its shares since they hit the December low.

This question is not an easy one to answer, given the stock's highly volatile short-term trading pattern. Shopify stock has fallen almost every time after going through a strong rally during the past one year. This boom-and-bust cycle hasn't been good for those who are in the market for short-term gains and couldn't time the next dip or an upside move.

But beyond this short-term approach, it's very clear that long-term investors have been rewarded for their patience, as they remained loyal with their trade. Despite all the volatility of the past year, Shopify stock is still up about 50%, and if you stretch your time horizon, you will see that this stock has delivered gains of more than 500% during the past five years.

Risks to Shopify stock

Let's take a look at the company's business to identify some risks that can sputter the current rally. The biggest risk I can see in the near term is Shopify's fourth-quarter earnings report, which is scheduled to be released on Feb. 12.

Analysts on average are expecting 47% growth in the company sales during Q4 to $327.47 million. The company is unlikely to report any net income after posting $0.15 profit in the same period a year, according to these estimates.

Shopify stock, like many of its peers in the tech space, is highly vulnerable to any miss in expectations. On the positive side, Ottawa-based Shopify has already raised its full-year guidance when it reported its third-quarter earnings in October.

The company that time expected revenue of $1.05-1.06 billion for the full year, up from its earlier guidance of $1.02-1.03 billion and ahead of analyst expectations.

“Management’s guidance of 55% sales expansion for the full year may still prove to be conservative, in our view, with strong volume momentum on the platform and increased spending from its premium merchants,” Bloomberg Intelligence analyst Anurag Rana wrote in a note that time.

But in my view, many things have changed since then, and investors’ key focus will be the company’s guidance for the first quarter. Given the global macro uncertainties, and with growth slowing in Europe and China, the trend has been to remain cautious for the first quarter.

That’s what we saw when **Amazon** reported its fourth-quarter earnings and gave a cautious sales outlook for the first quarter, which was below what analysts were expecting. We can expect a similar note from Shopify when it reports on Tuesday. One catalyst that can change this scenario is Shopify’s growing clout in marijuana’s online sales in Canada.

Shopify’s platform was widely adopted for online sales of recreational marijuana, which Canada legalized on Oct. 17. Government-run websites in several provinces, including Ontario and British Columbia as well as private companies, use Shopify’s point-of-sale system.

This new line of business is definitely a long-term plus for Shopify and could generate some excitement when it releases its earnings next week.

Bottom line

In short, I’m not a big fan of buying stocks before their earnings reports, and I will advise the same to Shopify lovers. Remain on the sidelines and wait for the next dip in its share price. It may not be that far anyway.

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Date
2025/07/03
Date Created
2019/02/10
Author
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