



How Risky Is Shopify Inc. (TSX:SHOP) Stock?

Description

The upside case for **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) is well known.

As a leading cloud-based commerce platform designed for small and medium-sized businesses, this company has filled a need that was screaming to be filled, helping new and old business owners alike who are struggling to get a handle of the new online world of business.

Accordingly, subscriptions and revenue have been experiencing explosive growth, as Shopify has achieved a leading multichannel operating system that many merchants have come to rely on.

Shopify stock is up big from its December lows, up 43% to be more precise, and it remains a highly valued [tech stock](#) that lacks visibility.

As a reflection of this uncertainty and lack of visibility, we can look at the wide range of analyst estimates for the next two years (a low of \$0.17 and a high of \$1.20 for this year, and a low of \$0.50 and a high of 2.06 for 2020).

If the high end materializes, the stock is already factoring this and more in the price, so it's no big deal.

But if the low end materializes, the stock will get bludgeoned for obvious reasons, i.e., valuation is factoring in an abundance of great expectations.

While shareholders have done phenomenally well owning this stock in the past, I wonder if the future will look very different.

Valuation is really ahead of fundamentals, the market and the company's estimates are at risk, and investors may increasingly opt in favour of the more predictable, steady stocks as the year progresses.

I think you will see that while Shopify is definitely in a business of the future, fundamentals really need to play catch up to the stock price, as Shopify stock has benefitted from investor expectations and excitement over and above fundamentals.

Earnings estimates falling

Looking at consensus earnings estimates, we can see that they are on a downward trend — a risk that is all too real in stocks such as Shopify.

So for 2019, the consensus EPS estimate is currently \$0.54 compared to \$0.59 previously, and for 2021 and 2022, the situation looks very similar.

For 2021, the current mean consensus estimate is \$1.43 compared to the previous \$1.65 (for a 13% reduction), and for 2022, the current mean estimate is \$3.19 compared to \$3.82 previously (for a 16.5% reduction).

And [valuations are expensive](#) no matter, with P/E ratios in the hundreds. Yes, EPS more than doubled in 2018, and is expected to double again by 2020, but these things do not happen without speed bumps and the valuation is just factoring so much of in already and more.

So the trend in earnings estimates is not good, which will make valuations even more expensive than they already are if this continues.

In conclusion, Shopify stock is quite risky in my view so investors should exercise caution for now.

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Date

2025/09/19

Date Created

2019/02/20

Author

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