Citron Research Takes Aim at Shopify's (TSX:SHOP) Stock: Time to Buy?

Description

Canada's tech darling is off to a blistering start to the year. Through the first few months of the year, **Shopify** (TSX:SHOP)(NYSE:SHOP) is up 40% year to date. As a result, it has busted through resistance, hitting new all-time highs.

Cue notable short-seller Citron Research. Late last week, Citron came out with a bearish note on the company that caused the company's share price to lose a couple of percentage points. If you've been following Shopify, this is old hat for the short-seller.

Citron Research and Shopify

Citron has issued several bearish reports on Shopify. It all started in October 2017, when it questioned the company's legitimacy. Citron referred to Shopify as a *"get-rich-quick scheme"* with questionable recruitment practices similar to Herbalife.

At the time, Shopify's stock was trading around $146 per share. In the days following Citron's report, Shopify lost 21% of its value. Within a month, it was back trading in-line with its levels prior to the report.

A little over a year ago, Citron targeted Shopify once again. This time, it targeted its business model on top of its marketing practices. It pointed to a "BIG Facebook" problem, and tied Shopify's rapid growth to **Facebook's** (NASDAQ:FB) questionable practices of sharing user data. Citron claimed that Shopify's growth *"might come to an abrupt halt"* should Facebook change its privacy practices.

Once again, Shopify had enjoyed a recent run of success and was trading at $202 per share. In the weeks following Citron's report, Shopify's stock fell by almost 30%, trading as low as $143. By the end of June, the company had broken through resistance and traded as high as $228.

Newest short thesis

As Shopify continued to touch new highs in 2019, it was not surprising that Citron came out with a new bearish thesis. This time, Citron pointed to a *“drastic change”* in the competitive landscape.

Why? There has been recent news from MailChimp, **Microsoft** (NASDAQ:MSFT) and Instagram, which have the potential to increase the competitive pressure on Shopify.

In the days following Citron’s report, Shopify lost 7% of its value. However, on Friday an analyst from Baird countered Citron’s bearish stance by raising its target to $278 per share. Baird also indicated that channel checks continue to affirm that the company, “continues to consolidate share, despite intensifying competitive concerns, and believe it will take years and significant investment for others to catch up.”

Is increased competition reason for concern? Absolutely. Investors would be foolish to discount the risks associated. Will it suffer a 50% drop and trade as low as $134 as Citron claims? Not likely.

Foolish takeaway

Citron preys on investors fears. It targets Shopify every time it starts to have a good run. Short-sellers like Citron Research make a living off fear and rely on the shaky hands of retail investors. Don’t let flashy headlines impact your investment company.

Shopify’s recent run has increased company valuations in a big way. On that basis alone, the company may see short-term weakness. However, over the long-term, Shopify is still one of the best growth stocks on the TSX.

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