



Is Shopify Inc (TSX:SHOP) Headed for \$300?

Description

Shopify Inc ([TSX:SHOP](#))([NYSE:SHOP](#)) has been unstoppable this year. The stock has already risen more than 50% since the start of 2019 and trading at a new all-time high at writing; the momentum is as strong as ever. Although the company is facing more [competition](#) and has seen its rate of growth [slow down](#), investors have remained very bullish on the stock.

How much higher can it go?

Currently, Shopify's stock is trading at more than 11 times book value and around 30 times its sales. Both are very high multiples, but investors have shown a willingness to pay a big premium for the stock. And whether those multiples are a few points higher, it is unlikely to suddenly make an impact now.

While the stock can continue climb on this momentum and defy value multiples, with earnings coming out at the end of the month, that will dictate whether it will be able to support these gains or whether the share price will be due for a correction.

Could this be the quarter Shopify falls below 50%?

Last quarter, sales were up 54% year over year, and if growth rates continue to decline, then this coming quarter could fall below 50%, which could have a bearish impact on the stock. While Shopify has done a remarkable job growing its business, the challenge is that once the growth dries up, there might not be a whole lot left for a company that has continually posted losses.

In the short term, I wouldn't be surprised to see more momentum push the stock price toward \$300 and perhaps even over it depending on how strong the markets are. The big allure of Shopify is that there aren't many stocks like it out there that are still producing very high rates of growth, which is why investors are likely flocking to it.

Long term, the big concern is its valuation and whether it has gotten too expensive.

Shopify has proven to be a very volatile stock, and in the past, it hasn't taken much to bring its share price down. As the stock gets closer to its earnings date, there will be more attention on the stock and its price, and if there isn't a drop that happens before earnings, I'd expect one to happen afterward when investors realize that they've gotten a little carried away.

Bottom line

There haven't been any big developments lately that would justify such a strong surge in Shopify's share price. The danger with Shopify is that the higher the price goes, the more of a correction we could end up seeing. More challenging times are certainly ahead for the company and its ability to keep trading at such high multiples is debatable at best, especially as growth slows down.

Shopify is still a good buy, and while I expect it will hit \$300 just based on momentum and how close it is to that mark, I also wouldn't bet on it staying above there for long. The stock is heavily overvalued and at risk for a big correction. As its sales growth slows, investors will start to expect to see a stronger bottom line — something that Shopify has struggled with in the past.

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