



What Should You Do With Shopify Inc. (TSX:SHOP) Stock Ahead of Earnings?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has been an absolute beast in 2019. It has set a high bar for its performance since its initial public offering back in 2015, and somehow has continued to raise that bar. Shopify faced a serious challenge from a short-seller in the summer of 2018, but appears to have brushed it off entirely after a brief period of volatility.

Shopify stock had climbed 58.8% in 2019 as of close on April 23. Shares were up 89% from the prior year. In early April I'd asked whether Shopify had the potential to become the [Canadian Amazon](#). These companies run very different businesses, but both have changed the game in e-commerce retail.

Shopify is set to release its first-quarter results for 2019 on April 30. The Shopify management team will host a conference call before the market opens, which will be available via webcast.

The company had a ground-breaking 2018 that beat expectations. Total revenue increased 59% from the prior year to \$1.073 billion. Gross Merchandise Volume (GMV) hit \$41.1 billion and gross profit climbed 57% to \$596.3 million. For the full year 2019, Shopify forecast revenue between \$1.46 billion and \$1.48 billion and adjusted operating income in the range of \$10 million to \$20 million.

What should investors expect for the stock ahead of its Q1 earnings release? Should shareholders look to take profits as the stock hovers around the \$300 mark as of close on April 23? Is there any reason for prospective buyers to pull the trigger on this red-hot tech giant?

Shopify has attracted some pessimism after reports revealed that **Microsoft** is set to join the e-commerce business in a bid to compete directly with Shopify. Fool contributor Ryan Vanzo recently discussed the [threat posed by Microsoft](#). Its cash pool dwarfs Shopify by a solid margin, and it can jump quickly into this highly competitive market. Shopify's market cap is just over \$30 billion right now. Microsoft boasts a \$130 billion war chest, which is reason enough for Shopify to start sweating.

Of course, this process will unfold in the coming years, and Shopify is still in a strong position as we await the first quarter report for the 2019 fiscal year. The issue for investors today is its valuation, which is extremely high in late April.

Shopify stock closed at \$299.79 per share on April 23. Shares hit an all-time high of \$305.11 in trading on the same day. Shopify boasted an RSI of 70 as of this close, which thrust it into overbought territory. This is a classic sell signal, but Shopify has hovered around overbought territory on numerous occasions in 2019 alone. We also need to consider the red-hot market, which widens the threshold for what is considered overbought using this indicator.

Shopify's sales-to-price is enough to make value investors shriek right now. I expect another solid earnings report, but Shopify stock is simply too pricey for me to recommend a buy right now. Those who have benefited from 2019 gains should pat themselves on the back and consider taking profits as we look ahead to the month of May.

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