



Better Buy: Shopify (TSX:SHOP) vs. Paypal (NASDAQ:PYPL)

Description

It's been a great week for **Shopify Inc** ([TSX:SHOP](#))([NYSE:SHOP](#)). After posting a quarterly report that topped revenue and earnings expectations, the company resumed its [bull run](#), rising to \$325 by the end of trading Tuesday. In its Q1 report, the company revealed that it had grown revenue by 50% and adjusted net income by 125% year-over-year.

Although the e-commerce juggernaut still posted a large GAAP net loss, these results show that the company is still growing—and the markets seem to recognize it.

However, when investing in ecommerce, investors have other options to consider. Although Shopify is the biggest riser in the space at the moment, other stocks are safer and much less volatile. One of those is **PayPal Holdings** ([NASDAQ:PYPL](#)). While PayPal's stock has not delivered the same frothy returns that Shopify has, it is significantly more profitable and incomparably more entrenched in its niche.

PayPal could arguably be seen as a competitor to Shopify, as it offers a quick and easy way to accept payments without subscription-based shopping carts. That said, let's see which one is the better buy.

Upside

In terms of upside potential, Shopify has PayPal beat. Growing revenue by 50% year-over-year and adjusted net income by 125%, it simply has growth that PayPal can't match. This is to be expected. PayPal is a large, established company that has already eaten up most of the market share in its space.

The law of diminishing marginal returns has to kick in at some point, and it would be unreasonable to expect PayPal's earnings to double every year when it's already a behemoth. With that said, PayPal could be said to be growing faster than Shopify, as you're about to see.

Fundamentals

In its most recent quarter, PayPal earned \$667 million in net income on \$4 billion in revenue. In the same quarter, Shopify earned \$10 million in adjusted net income on \$320 million in revenue. Shopify's [adjusted earnings](#) grew much more than PayPal's year-over-year.

However, PayPal has one advantage: GAAP earnings. In its most recent quarter, PayPal grew GAAP EPS by 34%, while Shopify's GAAP loss got larger. By this metric, PayPal is actually growing faster than Shopify because it has an increasing GAAP profit, while Shopify is stuck in net loss territory.

Granted, young tech startups like Shopify usually aren't evaluated in terms of GAAP earnings, but this is still a factor to consider.

Risk

Probably the biggest reason to consider PayPal over Shopify is the fact that PayPal is much less risky—both in a business sense and in terms of volatility. PayPal has an enormous economic moat due to the fact that competitors in its space almost never seem to catch on.

Shopify, on the other hand, is competing against alternatives like Magento and WooCommerce, both of which are quite successful in their own right. Shopify is also much more volatile than PayPal is, with a three-year beta of 1.08 to the latter's 0.91. Both of these companies are much less volatile than is the norm for tech stocks.

Ultimately, the choice between Shopify is one between upside and safety. If you want the highest possible return, go with Shopify. If you want a safer pick, go with PayPal.

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Author

andrewbutton

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