



Is Shopify (TSX:SHOP) Stock Too Hot to Buy?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock shot up another 3.88% on May 2 to close at \$343.85. This is slightly off the all-time high it set the same day of \$350.98. Even broader headwinds in Canadian and U.S. markets have not been enough to derail the stunning momentum that the e-commerce giant has built.

All the way back in October, I recommended Shopify as a [buy-low target](#). Shopify's earnings were solid, but high costs have eaten into margins and profitability remains a concern. Are we on the opposite side of the spectrum now? Is Shopify an overbought behemoth primed to burn new buyers?

Shopify released its first-quarter results on April 30. Revenue rose 50% year-over-year to \$320.5 million and monthly recurring revenue (MRR) rose 36% to \$44.2 million. Shopify did see its net loss expand to \$24.2 million or \$0.22 per share in the first quarter, compared to a net loss of \$15.9 million or \$0.16 per share in the prior year. Adjusted net income rose to \$10.3 million or \$0.09 per share over \$4.2 million or \$0.04 per share in Q1 2018.

The company even announced the opening of its own studio in the quarter, which will produce content that "redefines" and promotes modern day entrepreneurship.

In the beginning of April, I said that Shopify was a pricey but attractive target for investors on the hunt for a shot at quick growth. I also discussed its potential in [relation to another e-commerce giant; Amazon.com](#). Some of the most bullish analysts are projecting a \$60 billion opportunity into 2027. As it stands today, only 10% of Shopify's merchant base uses its non-English platforms. Expansion into key Asian and European markets like Japan, Singapore, Germany, and others carries huge potential.

Shopify's international expansion will be key to its growth going forward. It has been a true game-changer in North America, allowing for "influencers" and celebrities to bypass third-party retailers and market directly to their fans. In the first quarter, Shopify boasted that it now had over 100,000 merchants using its service in languages other than English. Shopify's international push and early success was one of the reasons for the upward revision in revenue to a range of \$1.48 billion to \$1.50 billion.

Investors did get a scare in early April after reports indicated that **Microsoft** was planning an e-commerce competitor. Some have suggested that Microsoft could make Shopify an acquisition target, but Shopify's sky-high valuation right now would likely put the brakes on such a push. Microsoft is flush with cash and its emergence in the e-commerce sector is well worth monitoring if you're a Shopify shareholder.

Is Shopify stock a bubble right now?

At a quick glance Shopify's incredible surge in 2019 certainly looks troubling — though perhaps not to shareholders who have raked in stunning profits! Shopify stock has hovered around overbought levels since early February. Shares had an RSI of 83 as of close on May 2, putting the stock deep into technically overbought territory. It is nearly impossible to cut through the hype right now, and with good reason. Shopify is an exciting company. Still, buyers today are paying a sky high premium for Shopify stock.

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