



## How Much Higher Can Shopify (TSX:SHOP) Stock Go?

### Description

**Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) just keeps on winning. After a well-received quarterly report that showed the company had grown its revenue by 50% year over year, Shopify stock proceeded to go on a wild bull run that saw it reach as high as \$357. Even with this week's awful TSX performance, Shopify is still well above the level it was trading at last week, which goes to show that this stock is still a market beater.

However, it's not entirely certain that Shopify can keep up these frothy gains forever. Although the company's revenue growth is strong, it [has been decelerating](#), and the company has so far failed to turn a GAAP profit on the revenue it brings in (adjusted profit has been positive for a few quarters now). These facts raise the question of whether Shopify can keep up its hot performance for the long term. To see whether it can, let's look at the company's most recent quarterly report and what we can deduce from it.

### Red-hot growth

In the first quarter of 2019, Shopify grew revenue by 50%. This breaks down to growth of 40% in subscription revenue, 58% in merchant solutions revenue, 36% in MRR and 50% in gross merchandise volume. Of all of Shopify's revenue streams, Merchant Solutions is looking the strongest. A payment gateway service, it allows merchants to accept credit card payments from customers. At \$180 million in revenue, it's Shopify's largest business segment.

As to whether Shopify is turning a profit on all this revenue, that's a [little more complex](#). Although the company reported \$10 million in adjusted net income in Q1, it reported a \$24 million loss in GAAP net income. Gross profit was positive and grew at 46% in the quarter.

### Celebrity partnerships

One ace Shopify has up its sleeve is celeb partnerships. A number of celebrities, including Adele, Drake, and Justin Bieber, run their online stores on Shopify. This gives the platform an air of "cool" that

creates a certain brand awareness that's hard to replicate. If you don't believe a chic brand image can drive growth, there are some **Apple** investors who'd like to have a word with you.

## Barriers to growth

Despite all the good news coming out of Shopify, it does face some barriers to growth. The most significant of these is the fact that the company lacks a built-in customer-acquisition platform. If you want to sell on Shopify, you're largely responsible for driving traffic to your own store, in contrast to **Amazon.com**, where you can get organic traffic from that massive site's user base.

Although Shopify has tried to help its vendors with marketing tools, these are mostly limited to features that help users run ad campaigns. Such features are probably inadequate to compete with Amazon's web platform with built-in search and recommendation functions, which casts doubt on the claim Shopify could become "the next Amazon." However, the company needn't ever reach that league to continue growing for a long time.

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