Why Shopify (TSX:SHOP) Still Belongs in Your Growth Portfolio

Description

Many investors and analysts have been predicting the demise of **Shopify** (TSX:SHOP)(NYSE:SHOP). The Ottawa-based e-commerce company is, after all, attracting competition from various prominent multinational corporations. However, Shopify's recent earnings showed that the firm still has serious upside and is well-equipped to fend off rival companies.

Soaring revenues

Shopify's revenues are driven primarily by its merchant solutions revenues. Merchant solutions are services available to merchants on the platform that greatly facilitate such important functions as payment processing. As the number of merchants on Shopify's platform increases, so will the company's merchant solutions revenues.

The firm now has over 800,000 merchants in over 170 countries. Shopify's most recent earnings report shows total revenues of $320.5 million, a 50% increase year over year. Merchant solutions revenue grew by 58%. Further, Shopify's subscription solutions revenues — the company's second largest segment by revenue — grew by 40%.

While the company's revenue growth is decelerating, that's hardly surprising given the rate at which it has increased in recent years. What's more, Shopify's revenue managed to beat analysts' estimates by some margin.

Still not profitable

While there is much to admire about Shopify's latest earnings report, it is essential to note that the company still recorded a net loss for the quarter. The company's net loss of $24.2 million was about $9 million more than its net loss a year ago. The company's share price still soared on the heels of its earnings release, however, increasing by about 9% since the news broke. Thus, Shopify continues to shatter expectations and defy common sense.

The e-commerce industry is still growing rapidly, and Shopify's unique platform appeals to a particular demographic, which is why the company has been able to consistently beat expectations. Despite not yet being consistently profitable, investors expect Shopify's revenues to continue growing for the foreseeable future, and many expect the company to be the industry leader for many years to come.

Growth opportunities

Shopify consistently aims at delivering new products and services. The goal is to make the platform the most essential aspect of the core operations of their merchants. During the last quarter, Shopify introduced new features such as Scripts and Flow. Scripts enable merchants to automate checkout in ways that include discounts and promotions. Flow allows merchants to automate repetitive tasks such as inventory orders.

There is no reason to think that Shopify will cease to be innovative with its service offerings. Also, the bulk of the company's customers are in North America. Shopify launched beta versions of its platform in several more languages late last year. As the e-commerce industry expands worldwide, Shopify will likely acquire a large portion of the market. Despite various companies lining up to compete with Shopify, most of them will have a lot of catching up to do.

Is it too late to buy?

News of Shopify's coming struggles may have been a bit exaggerated, at least if we go by the company's latest earnings report. Of course, a lot can still go wrong for the tech company, but a lot can go right, too. Shopify built a strong competitive advantage and will likely continue growing its merchant base (though at a slower pace) for at least a few quarters. Thus, I think Shopify still has some room for growth, although the window for newcomers to jump on the bandwagon may soon be about to close.

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Date
2025/08/15
Date Created
2019/05/10
Author
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