



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

Description

Many of the largest corporations in the world reside in the tech sectors. These companies, through their innovative products or services, managed to build a financial empire. Thus, it isn't surprising that investors looking for the next millionaire-maker stock often turn to the technology sector.

Let's look at two tech companies that have managed to produce market-beating returns over the past few years: **Shopify** ([TSX:SHOP](#)) ([NYSE:SHOP](#)) and **PayPal Holdings** ([NASDAQ:PYPL](#)). Which of them has the most upside?

The case for Shopify

Shopify is currently one of the leading e-commerce platforms in the world. Though there are many companies that purport to offer vendors an online platform, Shopify offers a unique experience to its customers.

First, the Ottawa-based firm gives merchants the autonomy to build a customized marketplace. This allows merchants to create a platform that is tailored to their customers' needs.

Second, Shopify allows merchants to reach customers through various social media avenues. These two factors make it difficult for merchants to leave the platform once they have gone through the trouble of building it with Shopify. In short, the tech firm benefits from high switching costs.

Over the past five years, Shopify's revenues have grown by about 84%. The firm's share price has been far more impressive, soaring by more than 1,000% over the same period.

Shopify isn't consistently profitable yet, but some of the world's most successful companies struggled to return a net profit during their first few years of operations. **Amazon** was created in the mid-1990s but was not consistently profitable until the early 2000s.

Though other tech companies are setting up to [challenge](#) Shopify in the near future, the firm showed better-than-expected earnings in its first quarter. International operations, potentially one of Shopify's most lucrative growth opportunities, made serious headway. It looks as though the Ottawa-based tech company isn't done defying gravity just yet.

The case for PayPal

Much like Shopify, PayPal is a leader in its industry. The company is one of the most recognizable names among digital wallets and possesses enough customers who use its services exclusively.

Paypal's ability to stay atop the pyramid in its sector was shown once again in its most recent earning reports. The company added 9.3 million net new active accounts during the first quarter, which brings its total to 277 million. PayPal's revenue grew by 12%, while net income and earnings per share increased by 14% and 37%, respectively.

PayPal has more to offer. The popular mobile payment service **Venmo** is owned by PayPal. Though Venmo offers a lot of the same services, it is much more user friendly. Venmo uses modern social media dynamics to add another dimension to its core operations.

This aspect of Venmo makes it especially popular among millennials, who can use the platform to pay money they owe friends while posting snarky remarks and comments in the process.

Venmo has grown at a rapid pace. The platform currently boasts more than 40 million users and an annual run rate on transaction volume and revenue of \$100 billion and \$300 million, respectively.

PayPal is facing more and more competition, with the number of digital wallets ballooning in recent years. This competition is especially fierce considering it often comes from some of the largest and most recognizable tech firms.

Google is one such company and **Apple** is another. That is possibly the worst duo of competitors any firm would want to face. Though PayPal still benefits from a competitive advantage, it isn't clear whether it can keep these competitors at bay for very long.

Which should you buy?

Both tech companies are excellent options, and both are also set to face fierce competition in the future. Though PayPal has stronger valuation metrics, Shopify probably has more room for growth at this point. For that reason, my money is on Shopify, though there are also excellent reasons for opting for PayPal.

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pbakiny

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