



## 3 Reasons to Buy Shopify (TSX:SHOP) Stock Now

### Description

Expensive stocks usually hit the chopping block sooner or later.

Take **Canada Goose Holdings Inc.** Since its IPO, shares have always traded between 50 and 100 times earnings. Investors thought the company could do no wrong after the stock rose 400% in two years.

Finally, on May 29, Canada Goose wasn't able to meet sky-high expectation, and the stock fell 30% in a single day.

Many doubters are predicting the same fate for **Shopify Inc** ([TSX:SHOP](#))([NYSE:SHOP](#)), claiming that the stock is priced for more than perfection.

Still, that's what bears were saying in December, just before shares went on a 100% run.

Shopify is clearly expensive, but time and time again, it's proven itself worthy of that premium. Despite the rising chorus of "overvalued" calls, here are three reasons to buy the stock today.

### It's all about growth

Bears believe that Shopify is already hitting its limits to growth. Bulls think it's just getting started.

Over the last three years, Shopify has grown revenues by 70% annually. Incredibly, tangible book value has grown by an average rate of 124% per year.

Growth is slowing, but it's still continuing at a breakneck speed. This year, sales are expected to pop by 40% to 50%.

Analysts anticipate that this annual growth rate to be maintained for the next five years. Few companies that can match this level of sustained growth.

While the company sports a \$40 billion market cap, the ultimate opportunity is several times larger than

this. Shopify has added nearly a million users over the last few years, giving it critical scale and brand awareness.

Because its platform is the most robust e-commerce option on the market, Shopify should be able to gain market share and sustain market-leading growth rates.

## An acquisition target

Many pessimists have pointed to rising competitive pressures that could put a dent in both revenue growth and earnings traction.

Tech giants like **Microsoft**, **Facebook, Inc.**, and **Square** have noticed Shopify's massive growth, and in one way or another, have entered the fray. I've even [argued](#) that **Apple Inc.** could enter the race for e-commerce dominance.

If the market is this heated, however, the first company to acquire Shopify would gain an insurmountable lead. Acquiring \$40 billion Shopify would be no problem for most of these companies. Shopify is only 5% to 10% the size of Facebook, Microsoft, and Apple.

Sure, competition is growing, but the incentives seem clear for a new entrant to snap up Shopify through a buyout. That bid would likely come at a healthy premium to the current stock price.

## Multiple ways to win

Shopify is launching several new revenue streams to help deepen its relationship with customers and diversify its market opportunities. Shopify Capital is a perfect example of this strategy.

Shopify Capital helps entrepreneurs get the funds they need to grow their business. "With no application process or forms to fill out, securing capital has never been this simple," the company says.

Because Shopify already knows the sales history and potential of its users, the company can effectively loan money to users in a low-risk way.

Instead of being structured as a traditional loan, Shopify simply pre-purchases inventory at a discounted price and then recoups their investment as the inventory is sold.

It's still too early to see if this lending model will take off, but Shopify has the potential to reinvent itself in the same way small businesses and entrepreneurs bootstrap their businesses.

Plus, if a user takes advantage of Shopify Capital, it's nearly impossible to switch vendors. Over time, the company could have retention rates that rival the stickiest business models.

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