



Shopify (TSX:SHOP) Is Soaring: Here's Why You Should Avoid It

Description

I distinctly remember March 25 of this year, when **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) was trading at \$ 269.90. The diabolical rise of the stock was a marvel, and there was a sense of pride among Canadian investors. A homegrown e-commerce company was locking horns with **Amazon.com Inc** (NYSE:AMZN).

Toward the end of the first quarter, I said that the growth stock had no more room to grow, but the stock never pulled back and kept surging. The behaviour contradicted my assessment and that of many analysts. As of this writing, SHOP is trading at \$409.15 and has impressed investors with a 51.6% rise in 84 days. So what's the next trend?

No price retreat

Some market observers are harping on the fact that Shopify has gotten ahead of the company's valuation, a clear and present danger to investors who see a large runway for growth. I'm concerned more about Shopify continuing to execute.

With the non-stop rise and the [no price retreat](#) behaviour, you can't see a good buy-in level. I'm not taking away the credit from Shopify. The company is doing awesome in the e-commerce space. Small businesses are overjoyed. Investors who bought shares at the start of 2019 have grown their investments by 118.7%.

SHOP is up 116.7% year-to-date on the TSX and the stock is even doing slightly better (+120.38%) on the NYSE. This Canadian cloud-based multi-channel commerce platform for small and medium-sized businesses has really got it going.

If you're looking for the company's income growth, there is none yet, as Shopify is actually generating losses. That's been the case for the last four years. But just like the American e-commerce counterpart, Shopify has captivated investors.

The need to expand revenue streams

I still think Shopify is trading at a high valuation, perhaps too high given that profitability remains in question. Still, other investors see SHOP as [a growth stock](#). The time may soon come when the monster growth will begin to moderate. But once it does, the price can come down quickly.

Now that Amazon is shifting gears and dropping small suppliers, Amazon's future is clearer. Expect more merchants to be added to the 800,000-strong small and medium-sized businesses already onboard Shopify. There is an alternative to Amazon and a catch basin to those that will be displaced.

Shopify needs to expand revenue streams in order to maintain the prince status after King Amazon. The company is enticing big companies and major brands with enterprise e-commerce services to hop in. Shopify Plus will cater to these larger prospective clients. The service is now contributing 26% to the monthly recurring revenue.

The beauty of Shopify is that as the company scales, so too will the businesses riding on the platform. You can still snap SHOP today but you'd purchasing and coming in at a premium. There's no guarantee the stock will rise again by 50% in the next quarter. As for me, I'm guarded and would rather avoid SHOP at the present.

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