



## Is Shopify (TSX:SHOP) Overvalued As Stock Rockets Past \$400?

### Description

Canada's premier multi-channel commerce platform is still trending upward on the **TSX**. The shares of **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) has climbed \$400 last June, at one point trading at nearly \$435.00. SHOP has since retreated and currently trading at \$410.35 at writing. Is the stock overvalued, and what [danger signs](#) lie ahead?

### Entrepreneurs' wellspring

There's still a lot of hoopla surrounding Shopify, as witnessed from the rapid pace by which the number of online retailers has been registering with the [cyberspace phenomenon](#). For budding entrepreneurs and e-commerce sellers, Shopify is a vital part of their business.

More than 800,000 merchants don't mind paying Shopify digital rent to get their stores online. What these small retailers get in exchange are online market presence and growing revenue stream. Of late, clients of Shopify Plus, the platform for larger or high-volume merchants, are also growing in number.

Shopify's cloud-based platform is priceless. Merchants can easily set up shop online and transition into the e-commerce space in a breeze. If businesses of varying sizes are cashing in, so too is the popular hub for sales-hungry merchants.

### Unstoppable business growth

Shopify's merchant base has grown by 60% to 800,000 in just two years. Sales grew along with the astonishing growth in the customer base. Top-line revenue has increased by 59.3% to \$1.073 billion in 2018. In the recent quarter, the company boasted 50% year-over-growth, or \$320.5 million.

The company's subscription solutions contribute about 44% to total revenue. It has climbed by 40% to \$140.5 million year over year. Revenue from Shopify Plus is fast catching up with 26% contribution. Aside from the subscription plans, other sources of revenue include apps, themes, and domain name registrations.

## E-commerce market potential

Shopify's prowess to generate strong revenue from various fronts is truly remarkable. The company is looking at a \$24 trillion e-commerce market in five to six years. Total e-commerce sales are just a little over 10%, which clearly indicates a longer runway and more merchants hitching on Shopify's bandwagon.

As a consequence of building scale, Shopify is incurring huge losses. Nonetheless, investors welcomed management's higher full-year revenue guidance of \$1.5 billion. Similarly, losses will narrow this year, tapering off to \$130 million instead of the earlier forecast of \$150 million. So is Shopify overvalued at this point?

## Glaring high valuation

I'm inclined to say that Shopify is overvalued given the projected revenue of \$1.5 billion as against a market capitalization of \$46.5 billion. I don't need to dwell on EPS or other metrics to support my assessment. Investors are in a trance and simply overlooking the over-the-top valuation.

Shopify has exhibited tremendous growth and will continue to grow in the near future. The superb business model is causing a dizzying spell. Shopify has become a strong brand that competitors would find hard to topple.

The current price is too expensive as an entry point, and I would wait for a drastic drop before taking a position. When? I can't tell for sure until the hysteria subsides.

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