



Should You Buy Shopify (TSX:SHOP) Ahead of Earnings?

Description

Shopify Inc ([TSX:SHOP](#))([NYSE:SHOP](#)) has earnings coming up next week, which will be a big test for the company. Year to date, Shopify's stock has more than doubled and it's been one of the top performers on the **TSX**.

Even since its [most recent earnings report](#), the stock has climbed around 25%. Whether it will be able to build off that momentum or whether it will come to a crashing halt will depend largely on how the company does next week.

The stock has been known to experience big swings, and I'd expect a lot of movement on earnings day one way. The question is: *which direction the will the stock take?*

Sales growth will be key

Given the company's many projects Shopify is currently undertaking, a positive net income number looks like a long shot at best, and it's likely that investors will mainly be looking at the top-line figure as opposed to anything else.

In the past, Shopify has seen its growth rate slow with each passing period. Last quarter, the stock just barely clung on to a 50% growth rate, and this could very well be the quarter that it slips beneath that threshold.

Another important factor to consider is that of guidance. With the company recently announcing that it would be getting into the [fulfillment business](#), investors are likely going to be expecting a very bullish forecast moving forward.

Otherwise, there would be little reason for the company to explore these avenues in the first place. However, if that isn't as good as analysts are hoping for, then that too could result in the share price losing some momentum.

The problem that I see is that the stock has simply gotten too expensive. Currently, investors are

paying around 40 times the company's sales to buy a share of Shopify, which is an astronomical premium.

The stock is also valued at more than 20 times its book value. Even the best tech stocks in the industry aren't at those levels.

Why I'd be selling before earnings day

If I were holding Shopify shares, I'd be selling before its next earnings release comes out. There's simply a lot more to be lost than there is to be gained at this point.

Investors who have held the stock have likely made some good returns so far this year, but those gains could be in jeopardy should Shopify fail to impress this time around.

The stock simply isn't worth the obscene valuation that it's at today. With little moat and a lack of profitability, the share price resembles more of a bubble waiting to burst than an investment opportunity with a lot of potential to rise in value.

In order for Shopify to produce good returns for investors who buy the stock today, the company would have to have an outstanding performance in its earnings report, and too much would have to go right for me to believe that's a strong probability of happening.

Shopify is a good stock, but there's no way that the company is worth its current valuation, even if it continues to have strong sales numbers this quarter.

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Author
djagielski

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