



Investor Beware: Shopify (TSX:SHOP) Stock Could Plunge 40% Over the Next 9 Months

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) isn't just one of the [hottest stocks](#) on the TSX index; it's one of the hottest stocks on the planet — so much so that our neighbours to the south have been asking about the name and whether it's got any more fuel left in the tank.

No doubt, Shopify is a heck of a growth story, and it's single-handedly put the Canadian tech scene under the international tech spotlight. And while the last blowout quarter and the potential growth opportunities are encouraging, it seems as though many euphoric investors have given little to no consideration for the stock's valuation.

When sexy becomes scary

You've got to [pay up](#) for hyper-growth stocks within red-hot industries. Many of us have accepted that and placed bets, despite the high degree of overpayment risk.

So, a name as "sexy" as Shopify, a frontrunner in the explosive small- and medium-sized business (SMB) e-commerce space, will likely never trade at a multiple that old-school value investors would consider cheap, unless there's a black swan event like a market-wide implosion, the occurrence of a scandal, or the company faces a severe growth slowdown.

So, for those feeling the fear of missing out, when does one draw a line whereby a stock is too expensive even given its growth prospects?

That's the million-dollar question, and unfortunately, with such sexy stocks, it's that much tougher to gauge its intrinsic value while the stock soars with analysts that collectively raise the bar on their price targets *after* the fact. That leaves many late investors at risk of losing both their shirt and pants if they bought the stock based on its momentum and wouldn't be willing to buy more shares on a significant pullback.

While it's all right to get a bit of skin in the game while the stock trades at nearly 31 times sales and 590 times forward earnings, it makes no sense to do so if you're not willing to double down on your position after a big plunge.

Left behind in the dust

Infamous short-seller Andrew Left of Citron Research drew the line on Shopify a few hundred bucks ago, and thus far, he's looked pretty foolish (that's a lower-case f!) for doing so.

Earlier this year, Left followed up with a short update that was largely ignored by Shopify investors who've since moved on and left Mr. Left behind. Sure, Left has a solid track record of timely short calls, but when it comes to Shopify, investors have lost faith in the man and his understanding of the business.

In Left's update, he cited rising competition (**Facebook's** Instagram Checkout, **Square's** online store, and **Microsoft's** foray into the SMB space) and all-time high (potentially peak) valuations as reasons why the stock could be at risk of a sizeable correction.

Left is "putting his money where his mouth is," committing to donate US\$200,000 to the Robin Hood Foundation if Shopify stock trades at over US\$200 in the 12 months following his short update's publication.

At the time of writing, Shopify trades at over US\$336, so Left has around nine months for Shopify to lose over 40% of its value. While it looks like the Robin Hood Foundation is sure to receive a significant charitable donation, I wouldn't bet against Left given the stock is priced with perfection after posting one of the best quarters of all time.

Could Left be right?

Shopify's business is incredible, but the stock's valuation makes me cringe. So, unless you've got conviction in the name and are willing to bet against Left, I'd wait on the sidelines with cash on hand for the better entry point, which Left foresees will arrive in just under a year.

It's a win-win situation: either you get a much better entry point to buy the stock, or we get to see Left donate a sizeable amount to a good cause.

In any case, I wouldn't recommend following Left with a short of your own, because Shopify could continue soaring into the sky, and it'd be reckless to bear the theoretically uncapped downside risk.

Stay hungry. Stay Foolish.

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joefrenette

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