



## Can Shopify (TSX:SHOP) Stock Withstand a Full-Blown Recession?

### Description

There is no doubt that the risks to global economic growth are accelerating. The escalating trade war between the U.S. and China has begun to take its toll on the industrial economy, and the central banks have started to act by cutting interest rates.

Is this environment conducive to buy high-flying growth stocks, such as e-commerce giant **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#))? Its stock is up more than 150% in the past one year, currently trading at \$482.52 a share.

If you look back on the past year, when the markets went through sharp corrections (for example, like the one in December 2018), [Shopify](#) plunged with other technology stocks. There is no doubt in my mind that it will fall again if the current bearish spell extends in markets.

But one important difference in the case of Shopify has been that it emerged much stronger after each correction during the past five years.

The reason behind this strength is that Shopify is benefiting from the explosive growth in e-commerce, a shift which is forcing both small and large companies to invest heavily in online channels to meet consumers' demand.

### Earnings strength

The latest evidence of this strength comes from Shopify's earnings performance. The company hasn't missed sales estimates in the 17 quarters it has reported financial results as a publicly traded company.

In the latest quarter, Shopify reported sales growth of 48% to \$362 million, again beating analysts' estimate of \$350.5 million. Shopify also raised its 2019 revenue guidance to a range of \$1.51 billion to \$1.53 billion.

That being said, Shopify has never gone through the full economic cycle, meaning that it has not yet been tested through the economic downturn of the magnitude that we saw in 2008. Does Shopify have

a business model strong enough to withstand a full-blown economic recession?

In my opinion, it certainly does. No matter how the economy performs, the shift to e-commerce isn't going away. Both small and large companies can't stop investing to make their e-commerce channels more attractive and easier to use. And Shopify is at the centre of this revolution.

Apart from providing e-commerce platforms, Shopify announced this year that it plans to spend \$1 billion on a chain of fulfillment centres that would pit it even more directly against **Amazon.com**.

"Our strong performance in the second quarter reflects the success of our ongoing activities and investments to help merchants start selling, sell more, and sell globally," according to Shopify's CFO Amy Shapero.

## Bottom line

It's hard to predict where Shopify stock will be if the global economy slips into a recession. But, over the long run, Shopify is a great growth name for investors to cling to and to take advantage of weakness when and if it comes.

### CATEGORY

1. Investing
2. Tech Stocks

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