



## Why Shopify (TSX:SHOP) Stock Rose 13% in August

### Description

**Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) continued its incredible rise upward in August. The company's stock price increased by 13% last month, while the **S&P/TSX Composite Index** gained just 1%.

The outperformance is easily explained—the fundamentals continue to improve at a rapid pace, and the market continues to apply a gigantic premium to shares.

Digging into last month's performance, however, reveals some troubling news. While the fundamentals continue to strengthen at breakneck speed, competition looks ready to heat up dramatically.

Shopify now sports a \$60 billion market cap, but next year, it could be facing *trillions of dollars* in competition. If you're invested in the tech sector, you need to know what's going on.

### Here's what happened

On August 1, Shopify reported second-quarter results. The company *crushed* expectations, which were already high. Revenue came in at \$362 million, representing 48% year-over-year growth while beating consensus estimates by more than \$10 million.

Adjusted EPS was \$0.14, beating consensus estimates by a whopping \$0.12. The stock popped 6% the day results were revealed.

Management also updated its full-year guidance. The company now expects full-year sales to hit \$1.52 billion with adjusted operating income of roughly \$25 million.

"It's incredible what we're getting done at Shopify," said Shopify CEO Harley Finkelstein on the company's conference call. "We're shipping important features at a strong pace as we invest and build great products, enabling more capabilities, I'm confident that we will continue to unlock unprecedented opportunities for merchants around the world, making commerce better for everyone, everywhere."

Later in August, Shopify became the tenth-largest publicly traded company in Canada. The company is

simply hitting on all cylinders.

## What to expect

Shopify is the epitome of a [successful tech platform](#). Platform companies create the base infrastructure that enables a litany of businesses and services to be built on top. A Shopify customer creating their own Shopify e-commerce site is a simple example, but the company goes far beyond website building.

Shopify now offers shipping, fulfillment, inventory tracking, working capital advances, marketing, payment processing, and more through its streamlined portal.

It's never been easier to build and scale a business. And once customers intertwine their businesses with Shopify, it's very difficult to switch platforms. This fact alone is helping Shopify approach profitability *years* before analyst expectations. There's only one problem: competition.

In 2020, Shopify is set to face growing competition from **Microsoft**, **Facebook Inc**, and **Square**. In total, these firms represent nearly \$2 trillion in value, much of which will be set on stealing market share growth. Shopify has been in a class of its own for years. That run may end over the next 12 months.

To be sure, Shopify will continue growing like a weed—the market is plenty big for several large players. The premium valuation Shopify has garnered, however, may contract. Additionally, pricing power could be severely impacted, pushing out the profitability ramp by months, or maybe years.

Trading at 28 times forward sales, the market is still pricing-in big expectations. Make sure you have a grip on the coming competition before buying more shares. It may even be time to start looking for the *next* Shopify.

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**Date**

2025/09/01

**Date Created**

2019/09/09

**Author**

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