Why Shopify (TSX:SHOP) Stock Plunged in August

Description

Shopify (TSX:SHOP)(NYSE:SHOP) continued its plunge throughout September after completing its additional stock offering of class A subordinate voting shares.

It almost seemed as if its decision to create a marketplace for U.S. CBD businesses would pump up the stock mid-September. Alas: Shareholders were disappointed to learn that even CBD could not help Shopify maintain its overvaluation at over $300 per share.

Serious investors need to be wary of stocks like Shopify. They may seem like they are going to be the next **Apple** or **Amazon** when they are flying up toward their highs. It is only when they are free-falling down to their more or less permanent lows that we realize the counter-arguments to our belief in the company's potential.

Amazon and Shopify have two separate business models. Shopify is a web hosting platform for small business owners. Amazon may offer web hosting services, but it's much more than just a technology company; it's an empire.

Here's why you should not buy into the hype about Shopify. Make no mistake; this slump is not a buying opportunity, it's a warning.

No dividends

Shopify didn't rise on news of growing dividend returns. The stock has never issued a dividend in its public listing history. Unprofitable stocks that don't issue dividends, but are subject to substantial increases in stock price are probably not the best investments for the average Canadian saver.

Canadian savers who give up their cash for no interest in the stock market are basically lending their money for free.

These stocks don't give out promises of future returns. If the stock never succeeds at building actual shareholder value, the company then leaves the individual investor with nothing.

Stocks that don't issue dividends but carry huge risks like Shopify are the worst choice a person can make in their retirement portfolio.

Shopify is not profitable

Unlike Amazon, Shopify is far from profitability. The last reported diluted EPS stands at negative $0.71. Rather than becoming more valuable over the years, the stock has been growing its losses steadily since 2015.

Granted, Shopify's revenue has grown from $205 million in 2015 to $1.07 billion in 2018, but the additional revenue did not translate into higher margins.

In fact, the company has consistently posted *negative margins.* The profit margin on Shopify's businesses is currently negative at 5.98%, and its operating margin is negative at 8.97%. The difference between the operating and profit margin is that the profit margin includes income taxes.

Foolish takeaway

Amazon and Shopify sell two completely different business models and potential for profitability. Shopify is more like **Wix** and **GoDaddy** than Amazon.

Wix and GoDaddy are two popular web hosting platforms. Wix sells for US$120.64 on the **Nasdaq** and reports a negative 8.7% profit margin. GoDaddy performs slightly better with a positive 2% profit margin and a 3.72% operating margin but only sells for $64.32.

If Canadians are curious about what Shopify is genuinely worth, the real market value of the stock once you subtract the hype is probably closer to GoDaddy and Wix than Amazon.

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