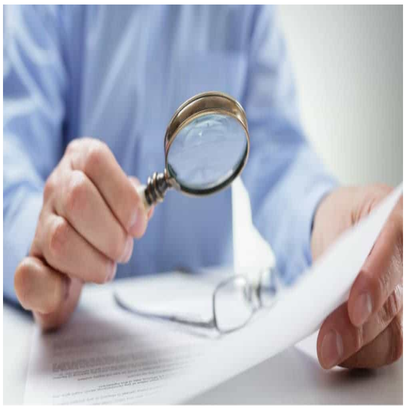

Shopify (TSX:SHOP) Stock Plummets on Negative EPS

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock has soared 145% on the Toronto Stock Exchange in the past year, but it is quickly reversing course. The stock's price is at $403.87 as of writing, down from a high of $543.76 just two months ago.

Today, the stock opened down $20, or about 5% after reporting disappointing third-quarter 2019 earnings. The web hosting firm lost $0.64 per share. Last quarter, the loss was lower at $0.22 per share.

As a high-growth company on a spending spree to expand its services, it is not unusual for it to run a loss. Shopify CFO Amy Shapero commented on the substantial investment activity at the firm: "By carefully balancing these multiple opportunities that have different investment time horizons, we can keep investing in the innovations that will power merchants in the future while helping them grow rapidly today."

Shopify is mixing its business-development strategy between medium- and long-term projects to increase cash flow over time. This is good news for shareholders.

Shopify prioritizes strategic investing timelines

If Shopify concentrated on only long-term projects, time would erode shareholder returns.

Every Canadian investor should understand how the *time value of money* affects investor choices. People value cash today more than they value cash tomorrow. If you receive money at an earlier date, you can start putting it to work for you sooner, either by purchasing products or reinvesting it.

Stock traders discount future income by inflation, risk, and opportunity cost to account for the difference in utility between a dollar today versus the same dollar at a future date.

Shopify understands that this is important to traders, which is why Shapero mentioned it during this morning's earnings. Unfortunately, assuring shareholders of tomorrow's gains was not enough to console them about the massive losses this year.

Investors are antsy to see returns; meanwhile, there are less-risky profit opportunities available in the stock market after this year's high volatility. Investments in Shopify are worth a lot less, especially with the stock's price at such an astronomical level.

Shopify overvalued compared with peers

Web-hosting peers like **Wix** and **GoDaddy** sell for US$123.61 and US$65.08, respectively. GoDaddy has a price-to-earnings ratio of 153 times earnings, which is considered very expensive. They both report negative margins, and it is risky to assume that Shopify will have better luck.

Shopify is doing its best to differentiate itself from traditional web hosting and align itself more with along the lines of the business model employed by **Amazon**. Nevertheless, it is a long way off from achieving market power even remotely close to that of Amazon.

Shopify is working on shipping services and a Shopify Fulfillment Network to enable more timely and affordable customer deliveries. It sounds like a solid enough strategy, except that it requires enormous capital expenditures to build the necessary logistical network.

Amazon has even struggled to balance fast shipping with profits. Last Thursday, Amazon announced earnings, citing shipping expenditures as a profit drag rather than a boost.

Canadians should watch how Shopify performs from a distance. The stock's price could fall another 50% in the next year or two. Its current price of $400 is drastically overvalued.

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