



What Impacted Shopify (TSX:SHOP) Stock Yesterday?

Description

Shares of Canada-based high-growth tech company **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) fell close to 4% on October 29, 2019. The stock closed trading at \$409.36 after the company announced its third-quarter earnings yesterday.

Shopify reported revenue of \$390.6 million in the third quarter — growth of 45% year over year. Its adjusted earnings per share were -\$0.29. The company reported revenue of \$270.06 million and EPS of \$0.04 in the prior-year period.

Analysts estimated Shopify to post sales of \$383.76 million and earnings of \$0.11 in the September quarter. We can see that Shopify stock declined in market value, as it missed earnings estimates by a huge margin.

Investors should be upbeat about Shopify forecasts

Despite the earnings miss, investors should view the third quarter as a solid one due to higher-than-expected top-line growth. Shopify also raised guidance for fiscal 2019. It expects revenue between \$1.55 billion and \$1.56 billion, up from the previous estimate of sales between \$1.51 billion and \$1.53 billion.

In the fourth quarter, it expects sales between \$472 million and \$482 million. Comparatively, analysts expect Shopify to post sales of \$470.58 million in the all-important December quarter.

The recent pullback in Shopify stock has meant that it is currently trading 23% below record-highs. It looks like Shopify is looking to drive revenue higher at the cost of profit margins, something **Amazon** has done for most of its lifetime.

The analysts remain optimistic about Shopify and have a 12-month average target price that is 15% higher than the current trading price.

What drove Shopify earnings in the September quarter?

In the third quarter, Shopify's subscription sales rose 37% to \$165.6 million. The increase in the number of merchants on Shopify's platform led to a rise in monthly recurring revenue (MRR), which drove the subscription sales higher.

The MRR rose 34% year over year from \$37.9 million to \$50.7 million. Shopify Plus accounted for 27%, or \$13.5 million of MRR in Q3, up from 24% of MRR in the prior-year period.

The merchant solutions sales rose 50% to \$225 million and this growth was driven by an increase in gross merchandise volume (GMV). Shopify's GMV rose 48% to \$4.8 billion. Further, the gross payment volume accounted for 42% of GMV and rose to \$6.2 billion in the third quarter. Shopify's gross profit rose 45% in line with sales to \$216.7 million.

Shopify now has over one million merchants on its platform driven by continued expansion in international markets. The company stated, "Shopify Fulfillment Network continued to lay the foundation for timely and affordable direct-to-consumer fulfillment for merchants that value their brands and customer experience. With strong interest from merchants, we will continue to add select merchants and partners as we focus on high performance and optimize for the merchant experience."

We know that Shopify is [looking to invest \\$1 billion](#) over the next few years to open several fulfillment centres and optimize the supply chain.

New growth areas

Shopify is looking to bank on the exponential growth in the cannabis markets with marijuana legalization in several countries across North America and Europe. It announced the availability for merchants in the U.S. to start selling hemp and hemp-derived cannabidiol products on its platform.

Shopify also launched the Shopify Chat, which is a chat function allowing merchants to have real-time conversations with customers visiting their stores. This might increase in customer engagement and provide a better shopping experience. It launched Shopify Payments in Italy, and this service is now available in 14 countries.

The company provided merchants with cash advances amounting to \$141 million — a rise of 85% year over year compared to the \$76.4 million in the prior-year period. Shopify has now issued a cumulative \$768.9 million in loans and advances since April 2016.

The verdict

Shopify is part of the high-growth e-commerce sector. Though I had [recommended selling the stock last month](#), it was purely on the basis of valuation. The fundamentals of Shopify are strong and the company has a huge addressable market.

It continues to remain a solid pick over the long term.

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