Why Shopify Inc. (TSX:SHOP) Stock Is 1 of the Best Buys for November

Description

Investors have suddenly started to hate growth and love cash flows. Look at the share prices of the technology companies which have massive growth plans, but have yet to show a path to profitability.

Shopify Inc. (TSX:SHOP)(NYSE:SHOP), one of the most-loved tech stocks, is being punished for the same reason. Shopify stock has fallen more than 22% since reaching a record high in late August, and it seems a quick recovery is not in sight.

In an earnings report announced this week, Shopify reported an unexpected quarterly loss as the Canadian e-commerce company spent more to expand its customer network and build out fulfillment centres across the U.S.

In the third quarter, the adjusted loss per share was US$0.29 a share, compared with earnings per share of $0.5 per year earlier. Analysts' were expecting a profit of $0.10, according to analysts' forecasts.

But before we discuss whether Shopify stock is a dangerous place when investors are rapidly selling the shares of loss-making growth stocks, we have to understand why Shopify is spending more and whether it has a credible strategy to turn these spending into a profit.

Shopify's fulfillment centres

Shopify told investors in June that it's ramping up its spending by $1 billion in order to establish a network of fulfillment centres in the U.S. The move has been designed to attract merchants using its platform deliver products more efficiently.

In my view, that was a smart move, as the company already processes millions of individual sales by hundreds of thousands of merchants every year. By providing a fulfillment capability, Shopify is targeting to pool shipments from various online stores together, making shipping cheaper and more efficient.

"More than a million merchants are now building their businesses on Shopify, as more entrepreneurs around the world reach for independence," said Tobi Lütke, Shopify's CEO in the earnings statement.

“These merchants chose Shopify because we’re making entrepreneurship easier, and we will continue to level the playing field to help merchants everywhere succeed.”

Apart from quarterly loss, I don’t see any other red flags that should discourage investors to buy Shopify stock after this massive correction. Its sales are still showing healthy growth and the company is fast increasing its global reach.

In the three months ending September 30, Shopify’s sales grew 45% to $390.6 million, helped by recent innovations in its online checkout system and a push to set up a delivery system.

Shopify also raised its 2019 revenue guidance to $1.55 billion to $1.56 billion and boosted its fourth-quarter sales estimate to as much as $482 million. To further accelerate its revenue growth, Shopify has announced the purchase of **6 River Systems Inc.** last month that will help her to set up a network of fulfillment centers in the U.S.

Bottom line

Trading at $419.70 at writing after a decline of more than 20%, I find Shopify stock a good bargain for those who were waiting on the sidelines for a good entry point. Painting all growth stock with the same brush, in my view, isn’t a good idea — and Shopify certainly doesn’t belong to that group.

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Date
2025/08/26
Date Created
2019/11/01
Author
hanwar