Is Shopify (TSX:SHOP) Stock a Good Buy at Over $400 a Share?

Description

There is no doubt that **Shopify** (TSX:SHOP)(NYSE:SHOP) proved itself to be one of the top-performing stocks on the TSX ever, as it soared to remarkable heights last year. Between December 21, 2018, and August 30, 2019, Shopify gained over 200% to reach a value of more than $540 per share.

Beyond August 2019, however, the darling tech stock has reversed its course on the Toronto Stock Exchange. The stock's price at the time of writing is $409.36 per share, down 24% from its all-time high of $541.49 just a couple of months ago. As I write this, Shopify opened $13 below after the stock reported a disappointing Q3 fiscal 2019 earnings report.

Effects of change and growth

The web hosting firm has lost the significant momentum it had just a few months ago. As a high-growth company, it is not a surprise to see a company experiencing a loss. Amy Shapero, CFO of Shopify, said that the company is heavily focused on investment activity right now. The firm is trying to balance out several opportunities across different horizons.

E-commerce is still in its nascent stages. Shopify is one of the leading names in this sector right now. The firm wants to leverage multiple opportunities to invest in innovations that will further bolster the industry's future. The company wants to help empower merchants at every level, allowing them to succeed today and furthering their success in the long run.

Good news for shareholders

Shopify initially focused entirely on low- and mid-level merchants. The company has recently started mixing up its business development strategy to accommodate enterprise-level clients as well. In terms of investment strategies, Shopify is working on both medium- and long-term projects so that it can gradually increase cash flow. This is excellent news for shareholders.

Typically, hyper-growth tech companies like Shopify focus on getting external funding. The companies spend that amount on growth investments until they can reach a point where the company starts producing positive cash flow. The short term might be a little uncertain for Shopify, since it is trading for more than it earns. Some even call it drastically overvalued. And I agree that it is overvalued — at least for now.

Shopify pulled off a similar move earlier this year by issuing almost two million new shares to raise $600 million. The only difference is, Shopify also managed to deliver positive cash flow around the same time. Over the past year, Shopify reported $13 million in free cash flow. This quarter saw the firm report negative cash flow due to increased investment in property and fulfillment centres.

The company does, however, have US$2.67 billion in cash, marketable securities, or cash equivalents on its books right now. All of these assets can secure a substantial growth for the company, at least for the foreseeable future. The e-commerce industry represents just 15% of the entire retail sector worldwide. Shopify has plenty of room to expand further.

Foolish takeaway

Investors had plenty of reason to worry that Shopify was trading for a lot more than it was earning. Analysts expected a correction in price to happen any time soon. The recent decline is likely a consequence of that. While the correction might have been a long time coming, I feel that it presents investors with a perfect opportunity.

The e-commerce industry has yet to establish itself fully. The recent dip in stock price could be an opportunity for long-term investors to add exposure to a company that can skyrocket in the years to come.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise

5. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Tech Stocks

Tags

1. Editor's Choice

Date
2025/09/17
Date Created
2019/11/06
Author
adamothman