



Tech Investors: Should You Buy Shopify (TSX:SHOP) After a 25% Drop to \$400?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has made many Canadian investors pretty wealthy over the past few years. Through thick and thin, the stock has continued to defy the laws of gravity, making up for lost time after dipping or moving sideways and rewarding dip-buyers handsomely as a result.

Short-sellers, including Citron Research's Andrew Left, have been left hanging thus far. And although Left is still betting that Shopify stock could [pull back to US\\$200](#) over the next few months, I think it's safe to say that the man has lost a considerable amount of credibility with investors after the company pulled the curtain on its "game-changing" first quarter, which was the launchpad that sent the stock into orbit.

A Q1 to remember

Every once in a while, a company posts quarterly results that turn harsh skeptics into believers. For Q1, not only did Shopify beat the Street by a country mile, but it also crushed its own expectations, leaving management's original guidance in the dust. That's an upside surprise for the record books.

It wasn't just the quarterly results that caused me to believe that the absurd multiple on Shopify wasn't as crazy as it appears on the surface. It was the massive number of Shopify Plus subscriber adds for the quarter which shot down concerns I had about the quality of Shopify's overall subscriber base.

"Shopify's larger, enterprise subscriber base is indeed swelling, and as the company signs on more big-league players, subscriber churn will become less of an issue during times of economic hardship." I'd said in a [prior piece](#).

"To add even more icing on top of what was a stellar quarter, Shopify's international business has been picking up a considerable amount of traction."

For a stock that was trading at over 25 times sales (that's sales, not earnings! Shopify trades at 400 times forward earnings!), you're asking for high double-digit, or even triple-digit revenue growth numbers and imminent profitability. Anything short of that, and you could quickly be left holding the bag

with a 50% correction.

Fortunately, progress on the international front and momentum in Shopify Plus leads me to believe that Shopify still has plenty of growth left in the tank, and that Andrew Left's short thesis may have been nullified for the most part.

What is Shopify stock really worth?

So, the growth coming out of Shopify is the real deal, and it's worthy of a premium multiple, but where does one draw the line? And could Shopify suffer a reversal of momentum before its next big leg up?

At the time of writing, Shopify is a momentum stock without any momentum now that the stock is down over 25% from its all-time high just shy of \$550 hit back in August. The stock trades at 24.8 times sales and still seems priced for perfection following a somewhat mixed third-quarter earnings report, which didn't appear to be dampened by the "worsening" economy.

Revenues surged 45% year over year, and the international segment continues to shine.

Indeed, Shopify has been firing on all cylinders, but investors have absurdly high expectations at this juncture. I still think that Q1 represents a paradigm shift, but at today's valuations, I'd much prefer that investors wait patiently for a better entry point.

Shopify could still drop-ify!

A 25% decline in shares is nothing more than a small blip after the stock's incredible 2019 run. Although it can't hurt to get a bit of skin in the game if you haven't done so already, I'd wait until the stock falls to \$300 before I'd recommend backing up the truck.

If you're not keen on getting into the name today, you may want to wait and see if Andrew Left's original US\$200,000 bet on Shopify at US\$200 comes to fruition, which would suggest a further 35% drop from today's levels.

Even the best growth business in the world can be a horrible investment if you overpay for its stock. And at \$405, I think Shopify is such a stock. So, be cautious and wait for your opportunity to pounce.

Stay hungry. Stay Foolish.

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