



Can Shopify Inc. (TSX:SHOP) Stock Touch \$500 Mark in December?

Description

With risks to growth receding and investors in the stock market are again willing to shift their funds to high-growth stocks, is the time right to buy Canadian e-commerce powerhouse, **Shopify Inc.** ([TSX: SHOP](#))(NASDAQ: SHOP)?

After soaring 187% year to date until late August, [Shopify stock](#) has fallen more than 16%, after announcing an unexpected loss for its third-quarter in late October.

After a few uncertain months in which investors questioned the wisdom of chasing companies that have yet to show a meaningful path to profitability, the environment is looking favourable again for investors in the high-octane growth area.

Both U.S. and China are getting closer to sign a deal to resolve their trade dispute, removing one of the major drags that kept technology shares under pressure during the most part of 2019.

Other positive development is that the U.S. and Canadian consumer spending remains strong amid a low unemployment rate. An economy where consumers feel confident should fuel more spending on e-commerce platforms, benefiting Shopify.

With the economic outlook improving, one big challenge for investors is that Shopify stock is currently trading at a very high multiple. That raises concerns about whether investors are paying too high a price for that growth. Shopify has a forward price-to-estimated sales ratio of 18, compared with an average of 1.6 for the **S&P/TSX Composite Index**.

Strong sales

While many e-commerce companies, including Shopify, have high valuations, they are strongly backed by their sales growth. Per-quarter growth has consistently been in the low to high double-digit percentage points.

Sales growth within the e-commerce sector is forecast to reach at 20% this year, exceeding US\$3.5-trillion, according to research firm **eMarketer**.

Although e-commerce's annual growth rate is expected to slow to about 15% in 2023, its share of all retail is predicted to grow to more than 22% from about 14% in 2019. In Canada alone, e-commerce sales are expected to reach \$98-billion annually by the end of 2022, eMarketer predicts.

Given these positive growth forecasts, I don't see anything that should discourage investors to buy Shopify stock [after this 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 fulfilment centres in the U.S.

Bottom line

Shopify stock may look expensive to some cautious investors after more than doubling its value this year. However, one shouldn't ignore the fact that company is producing impressive sales for many years and they have still much more room to grow.

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