



## This Holiday, Take Profits on Shopify's (TSX:SHOP) Stock

### Description

Dashing through the snow. In a one-horse open sleigh. Holiday shoppers know. Sellers are laughing all the way.

Christmas is a magical time for everyone, but it's particularly magical for retailers. And since most shopping has moved online, e-commerce giants like **Shopify** ([TSX:SHOP](#))(NASDAQ:SHOP) have plenty to look forward to.

The Shopify team has already reported stellar sales over the American Thanksgiving, Black Friday, and Cyber Monday long weekend. The million merchants on the Shopify platform collectively sold goods and services worth US\$2.9 billion (C\$3.8 billion) in the span of those few days. That's 67% higher than the same period last year.

Unsurprisingly, Shopify's stock is up 24% this month and is currently trading within 12% of its all-time high set earlier this year. By all accounts, the stock seems pricey, but investors must now ask themselves if this relentless pace of growth justifies a premium valuation.

### Holiday quarter

Last year, Shopify reported fourth-quarter (Q4) revenue at \$453 million, up 54% from the previous year. The strength of holiday shopping was the primary reason for this growth spurt. Since the current holiday season seems to be off to a great start, investors can assume Q4 revenue this year will come in at least 50% higher than last year.

In that case, the company could be on track for \$1.75 billion in annual revenue for fiscal 2019, according to my calculations.

### Valuation

Shopify is currently worth \$55.7 billion in market capitalization, or nearly 32 times annual revenue. Meanwhile, the company is losing money and has negative cash flows as it rolls out its fulfillment centres and expands operations to new regions.

A price-to-sales ratio of 32 seems unjustified, even for a hyper-growth stock like Shopify. It seems investors have been quick to price in these better-than-expected holiday sales figures. Now, potential investors must ask themselves if this growth pace can be sustained in 2020.

Some argue that the size of the global retail industry justified this hefty valuation for an e-commerce challenger like Shopify. According to my Fool colleague Haris Anwar, online sales still account for only a fifth of all retail sales. As this proportion expands over time, the market potential for companies like Shopify could be worth [multiple trillions of dollars](#).

I have no doubt that's the case. However, Shopify isn't the only contender in this space. Its obvious rival, **Amazon**, is currently owned by the world's richest man, Jeff Bezos. That well-known firm has been cash flow positive for decades and has recently become profitable too. Shopify's risk of losing this battle justifies a more reasonable valuation.

Current shareholders must ask themselves if now might be the best time to sell. In my view, Shopify's stock seems priced to perfection. Selling at this price locks in hefty capital gains for patient investors who've been holding onto this stock for years.

## Bottom line

Shopify is one of my favourite tech stocks. I admit there is potential for tremendous growth. However, the recent surge in the stock price on account of stellar holiday sales may have pushed the valuation too far. Contrarian investors might want to consider taking some money off the table at this stage.

### CATEGORY

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