Can Shopify (TSX:SHOP) Stock Outperform Again in 2020?

Description

Since its IPO in 2015, **Shopify Inc** (TSX:SHOP)(NYSE:SHOP) has been one of the best-performing Canadian stocks. From its closing price on its first day of trading to today, it has risen 1,289%, a market-beating return by any standard.

This year, the stock faced the first true challenge to its seemingly unstoppable march upward, falling for several months during the summer. More recently, it has come back to life, rising 28% in November and December.

As a result of the recent gains, Shopify has gotten expensive, while revenue growth has simultaneously slowed down. This raises the question of whether the stock can continue beating the market in 2020.

But before answering that question, let's take a look at where the underlying business is at in the closing weeks of 2019.

Decelerating revenue growth

As 2019 comes to a close, the biggest problem facing Shopify is decelerating revenue growth.

In its most recent quarter, Shopify grew revenue at 45% year over year. That's a fantastic growth rate, but it's down from previous quarters that witnessed growth of as much as 60%.

Decelerating revenue growth isn't *necessarily* a problem. If a stock can drive profits while revenue growth slows, then the markets may reward it. However, as we're about to see, it's not entirely clear whether Shopify can do that.

A big question mark on profitability

There are many different metrics that can be used to assess whether a company is profitable.

GAAP accounting standards provide objective standards for evaluating net income and earnings per share. By these standards, Shopify has never been profitable.

There’s also adjusted earnings/EPS, giving companies the flexibility to exclude certain expenses or earnings they don’t think represent their true profit picture.

Shopify has occasionally produced positive earnings going by this more flexible–and sometimes more accurate–standard. You might think that adjusted earnings allow companies to report misleading results, but in fact they can be used to show a company’s earnings picture discounting non-recurring factors such as income-deferred income tax recoveries or lawsuit expenses.

It’s encouraging that Shopify has at least been able to occasionally post positive adjusted earnings. However, in its most recent quarter, Shopify lost $0.64 per share (GAAP) and $0.33 per share (adjusted), while analysts had been expecting a $0.25 adjusted profit — not exactly this company’s best-ever showing.

Shopify’s ace in the hole

One ace in the hole that Shopify does have is a solid base of celebrity and big-brand vendors.

The company’s e-commerce platform has long been the choice of celebs like Drake, Adele and Jeffree Star–huge names that can pull massive revenue in for Shopify without the company having to spend more money.

The company also counts some big brands among its customers, and the above logic applies to them as well. However, even with this growth fuel, Shopify is seeing its revenue decelerate while spending lots of money on questionable initiatives like media production.

We’ll have to see how this plays out in the long run, but I’d be extremely surprised if SHOP’s 2020 return was as good as 2019.

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