



Will Shopify Hit \$600 in 2020?

Description

In just two years' time, **Shopify Inc** ([TSX:SHOP](#))([NYSE:SHOP](#)) shares have risen more than 270% as the stock has gone from trading at over \$140 to \$525 by last week's close.

With a market cap of more than \$60 billion, the company is already among the most valuable on the **TSX**. The question many investors are likely asking is this:

Can the stock continue rising?

Admittedly, every time I believe the stock can't go any higher, it continues to do just that. It has defied any and all valuation principles. Profitability is nowhere in sight, the stock trades at more than 42 times its sales and 21 times its book value.

It's expensive regardless of whether you compare it to **Amazon**, which trades at 3.5 times sales and 16 times book value, or even **Netflix**, which has a comparable price-to-book multiple; however, even Netflix is valued at a more modest price-to-sales ratio of 7.5.

The one thing that Shopify continues to have is its high rate of growth. In its most recent quarter, sales were up 45% year over year. While that's not as high as that of prior quarters and years, it's still remarkable growth.

By comparison, Netflix is still growing at a rate of 31%, while Amazon has slowed to 24%. When looking at growth rates, Shopify does appear to deserve to trade at higher multiples. But an important difference is that those two tech giants are both profitable, while Shopify continues to incur losses.

Shopify's growth rate has been falling, but if it stays above 40%, it may continue to gain momentum, which could indeed be a possibility as the company will be offering [fulfillment services](#) as it finds new ways to expand its business and add more value for its customers.

Is \$600 realistic in 2020?

In order for Shopify to reach \$600 this year, its stock price would have to rise about 14% from where it closed last week. That would be a mere mortal return for a stock that has risen nearly 1,500% since going public.

Unless there's a seismic correction in the markets, there's little reason to doubt that Shopify won't have another strong year in 2020 and the stock reaching \$600 is a distinct possibility.

As long as the company continues its strong growth and the fulfillment business shows promise, investors will likely remain bullish on the stock for the foreseeable future.

That doesn't mean the stock is a safe buy

Shopify may hit \$600 this year, but that doesn't mean the stock will finish there. The stock is still wildly overvalued, and any sort of downturn in the markets could be bad news for Shopify, as it's among the most expensive on the **TSX**. All it could take is one scathing [short-seller report](#) to send the stock down.

With a beta value of more than one, Shopify has plenty of exposure to the markets. If investors look for safer, defensive stocks to hold in their portfolios, we could see Shopify's bubble begin to burst if the markets don't cooperate this year.

The stock continues to hold lots of potential in 2020, but investors should keep a close eye on it, as drops in price could happen suddenly.

CATEGORY

1. Investing
2. Tech Stocks

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Date

2025/07/19

Date Created

2020/01/08

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