Could Shopify (TSX:SHOP) Become a $200 Billion Company?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock continues to defy the laws of gravity, with the stock continuing to make new all-time highs on the weekly (shares are now up 270% since the December 2018 bottom). While valuations have gone above and beyond what's deemed as reasonable, even for a hyper-growth stock in one of the sexiest tech industries on the planet, there are many reasons to believe that the name can head much higher over the next three years, corrections included.

Infamous short-seller Andrew Left has been left behind by investors thus far, and there's no question that he's been feeling a bit of a squeeze over the past year while the stock has nearly tripled. The remarkable run is undoubtedly indicative of a bubble, but given the company is now a leader in one of the hottest markets out there and how much more room the company has to run, the bubble case for Shopify is looking less likely by the day, as management continues to rise above and beyond sky-high expectations.

It's tough to pinpoint just how much higher Shopify can rise given the magnitude of growth and the impeccable capabilities of management, but does the company sporting a $200 billion market cap really sound that far-fetched given the sustained rise of many of the other cloud-harnessing SaaS players in Silicon Valley?

Given Shopify has arguably outshined many players of its hyper-growth tech peers, I'd argue that Shopify can continue roaring to such heights. While I'm no advocate of buying stocks at any price, investors need to realize that Shopify is not the type of business that will ever trade at a multiple that's anywhere close to being reasonable, let alone trading at a value multiple.

Sure, a global recession could pummel Shopify, as the appetite for online shopping plummets, but given the company has won over a tonne of higher-quality Plus subscribers over the past year, the churn concerns I had initially are being diminished. Given the rapidly improving infrastructure, new add-on offerings, and upselling opportunities, Shopify is not only a company that's poised for explosive revenue growth, but it's also capable of making a very sharp (and sustainable) surge into profitability.

Unlike **Tesla**, which cut its way to profitability, I see Shopify as a company that can sustain such profitability while continuing to invest heavily in R&D. With Shopify announcing its intention to hire 1,000 people in a new (and permanent) Vancouver office, Shopify's moat in the small- and medium-sized business (SMB) e-commerce space is likely to continue to widen over time.

Shopify's enterprise-grade solution could also pick up meaningful traction over the coming years. While upped expenses could take a toll on the hopes of sustained profits over the intermediate term, I am a fan of the big profitability onramp, which will allow the company to make the jump whenever CEO Tobias Lütke gives the order.

For now, Shopify is willing to invest heavily to win over (and retain) merchants to sustain its high double-digit year-over-year growth rate. When growth inevitably flat-lines, I see ample opportunity for the firm to expand upon its margins to make the jump to the green, which will also bode well for the stock.

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I wouldn't bet against that from happening. Although it sounds far-fetched, so too did [my price target of $600 back in December] (shares currently sit at $615 and change).

I wouldn't advise backing up the truck on shares while they trade at 36 times sales, though. If you're keen, get a bit of skin in the game today, but be ready to buy more on a meaningful pullback that'll follow an inevitable quarterly miss. The road to $200 billion may take another few years, but don't be surprised when it happens.

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