



Is Shopify (TSX:SHOP) Stock a Buy Before Earnings?

Description

Shares of Canada's high growth tech company **Shopify** ([TSX:SHOP](#))(NASDAQ:SHOP) are trading at \$616.33 at writing. The stock has gained 176% in the last 12-months and is up by a staggering 1563% since its IPO in May 2015.

So, in case you invested \$1,000 in the Shopify IPO, it would be worth well over \$15,000 today. But can Shopify stock continue to gain momentum in 2020 or will its market value decline over growth and valuation concerns?

Shopify is slated to announce its fourth-quarter results on February 12, 2020, and stellar performance will drive the company stock price higher. In the fourth quarter of 2019, analysts have estimated revenue of USD \$482.05 million, a rise of 40.2% year over year.

This will mean sales growth of 44.9% for 2019. According to consensus estimates, Shopify's earnings are estimated at USD\$0.24 in Q4, compared to earnings of USD \$0.26 in the prior-year period.

Shopify had record Black Friday/Cyber Monday sales

The December quarter is one of the busiest for traditional and online retailers, as it coincides with the holiday season. Shopify's merchant sales touched a record USD \$2.9 billion during the Black Friday-Cyber Monday weekend, up from USD \$1.8 billion in the last year.

Over 25.5 million customers purchased products from Shopify merchants with peak sales of USD \$1.5 million per minute. In the United States, consumers spent an average of USD \$83.05 per order, while this figure for Canadian consumers stood at USD \$96.3.

Focus on expansion

With robust top-line growth, [Shopify continues to expand](#). The company is looking to hire 1,000 workers and open an office in Vancouver by the end of 2020. With the addition of new merchants,

Shopify sales are expected to rise by 36% to USD \$2.11 billion in 2020.

Shopify has successfully built an ecosystem for small and medium enterprises to enhance customer reach. Now, Shopify stands to benefit from the growth in online shopping, a low merchant churn rate, improving infrastructure, and add-on offerings.

This rise in revenue will also expand Shopify's bottom line. Though company earnings are expected to fall 50% in 2019, they are estimated to rise by 389.5% to \$0.93 in 2020. However, these growth rates have meant Shopify shares are [trading at a premium](#).

The company is valued at USD \$53.91 billion, or 25.6 times 2020 sales. It has a price to sales ratio of 38 and a price to book ratio of 19. Shopify's 5-year estimated PEG ratio is also significantly high at 48 and its forward price to earnings multiple stands at an astonishing 500.

The verdict

Shopify stock is overvalued and expensive. While it remains a solid long-term buy, investors need to take advantage of short-term price fluctuations and volatility in case it misses Wall Street earnings and forecast.

The holiday quarter performance is extremely critical for Shopify, as the stock is currently trading just below record highs. In case it misses consensus estimates or provides a less than impressive guidance, Shopify shares can move significantly lower due to its high valuation metrics.

The 29 analysts tracking Shopify have a 12-month average target price of USD \$404.54, which is 13% below its current price.

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Author

araghunath

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