



Shopify (TSX:SHOP) Stock Gains 8% Post Earnings

Description

Shares of Canada's e-commerce giant **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) gained 7.8% on February 12, 2020. The company announced its fourth quarter of 2019 result yesterday and reported revenue of USD \$505.16 million with adjusted earnings per share of USD \$0.43.

Analysts expected Shopify to post sales of USD \$482.05 million and earnings of USD \$0.24 in the fourth quarter. In the first quarter of 2020, Shopify forecast revenue between USD \$440 million and USD \$446 million, compared to consensus revenue estimates of USD \$444.5 million.

In 2020, the company forecast sales between USD \$2.13 billion and USD \$2.16 billion compared to the Wall Street forecast of USD \$2.11 billion.

During Shopify's earnings call, CEO Tobi Lutke stated, "2019 was a milestone year for us. We've earned the trust of more than one million merchants, and we are motivated more than ever to keep lowering the learning curve so anyone, anywhere can become an entrepreneur."

We can see that Shopify crushed consensus revenue and earnings estimates in Q4 and provided 2020 guidance above Wall Street estimates, driving the stock higher. Shopify stock has now gained 30.5% year to date and is up 179% in the last year.

What impacted Shopify sales in Q4?

Shopify's subscription sales were up 37% at USD \$183.2 million and accounted for 36% of total sales. Subscription sales increased by growth in monthly recurring revenue, driven by an increase in the number of merchants joining the Shopify platform.

Merchant solutions sales were up 53% at USD \$322 million, while gross merchandise volume (GMV) rose 47% year over year to USD \$20.6 billion. The gross payments volume rose over 50% to USD \$8.9 billion and accounted for 43% of GMV in Q4.

Between Black Friday sales in New Zealand and the Cyber Monday sales in California, Shopify sales

on the platform touched USD \$2.9 billion, up from USD \$1.8 billion in the prior-year period.

Shortly after Shopify announced its results, several investment banks increased their price targets on the stock. Analysts are bullish on Shopify's accelerating revenue growth, subscription sales, strong holiday performance and more.

What's next for investors?

Shopify claimed that the Shopify Fulfilment Network is laying a strong foundation and is expanding the number of partners, merchants, and nodes. This expansion is likely to continue in 2020, when the company will look to optimize merchant experience.

In 2019, Shopify acquired 6 River Systems, a provider of warehouse solutions. The integration of 6 Rivers Systems with Shopify's fulfillment centres will go a long way in improving the merchant experience.

In Q4, Shopify issued USD \$115.9 million in merchant cash advances and loans, up from USD \$71.8 million in the prior-year period. This 61% increase has meant that Shopify has now issued USD \$885 million in cumulative cash advances since April 2016.

Driven by Shopify's monstrous bull run since its IPO in 2015, the stock is trading at a premium valuation. It is valued at 29 times 2020 sales with a five-year estimated PEG ratio of 14.5.

While Shopify stock is a [solid long-term bet](#), investors can expect the stock to be volatile and lose significant value in a market sell-off.

While it's impossible to time the market, investors need to add to their position at every major correction to buy shares at a far cheaper valuation.

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