



Coronavirus Alert: Online Tech Stocks Are at Real-World Risk

Description

The coronavirus outbreak in China shows no sign of abating. At the time of writing, total number of infections have crossed 65,247, while the death toll has just crossed 1,491. The virus seems to be quickly spreading to other countries, and the death toll could climb much higher in the days ahead.

As a consequence, a number of countries have placed travel restrictions on China, while the Chinese government has placed millions of citizens and dozens of cities on total lock-down. The stock market, meanwhile, keeps climbing unencumbered.

Investors may have overlooked the true impact of this viral outbreak on companies across the economy. I believe the unprecedented lock-down and global travel restrictions will shave millions off the top line for most companies listed on the Toronto Stock Exchange. Even seemingly insulated digital platforms and e-commerce giants are vulnerable.

Here are the top two digital companies and stocks I think will have a terrible first quarter as this situation progresses.

Shopify

Canada's biggest tech success story has carved out a niche in a market dominated by a hundred-tonne gorilla south of the border. Investors who bet on this stock early have had one of the most impressive runs in the past decade. **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has multiplied shareholder wealth 20 times over since its public listing.

The stock has been climbing much higher after a record-breaking holiday season, which saw gross merchandise value (GMV) jump 47% and sales jump 61% year on year.

However, it's easy to forget that these sales are generated by small- and medium-sized online shops or drop-shippers that are overly reliant on Chinese goods. Many of the online sellers that use Shopify's platform source their goods through Chinese factories or wholesale markets on **Alibaba**.

With the holiday season over and China on extensive lock-down, expect the GMV on Shopify's platform to decline noticeably in the first quarter of 2020. If the lock-down persists for more than a few

months, many of the shops on Shopify's platform will have to shut down.

Descartes

Descartes Systems Group ([TSX:DSG](#))([NASDAQ:DSGX](#)) is a niche software provider with some [impressive shareholder return performance](#) over the past two decades. Descartes stock has multiplied 10-fold in the last 10 years alone. It's been a primary beneficiary of the boom in global trade over this period.

However, the coronavirus outbreak could disrupt this impressive run. Descartes operates the Global Logistics Network, an electronic messaging system widely used by freight companies, manufacturers, distributors, retailers, customs brokers, government agencies, and other interested parties to exchange logistics and customs information.

China plays a critical role in the global logistics industry. Now that vast swathes of the country are on lock-down and several manufacturing companies have suspended operations, shipments from China have plummeted. According to the *Wall Street Journal*, the global shipping industry is losing an estimated US\$350 million every week because of this.

As global trade and shipments are driven off course, Descartes customers could start cutting back and using the platform less, which could ultimately be reflected on the company's bottom line.

Bottom line

There's no way to know how long China's extensive lock-down will persist, but it's clear that global production and shipments are already being squeezed. Digital companies like Shopify and Descartes that rely on this global supply chain may soon bear the brunt of this unfortunate calamity.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:DSG (The Descartes Systems Group Inc)
4. TSX:SHOP (Shopify Inc.)

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