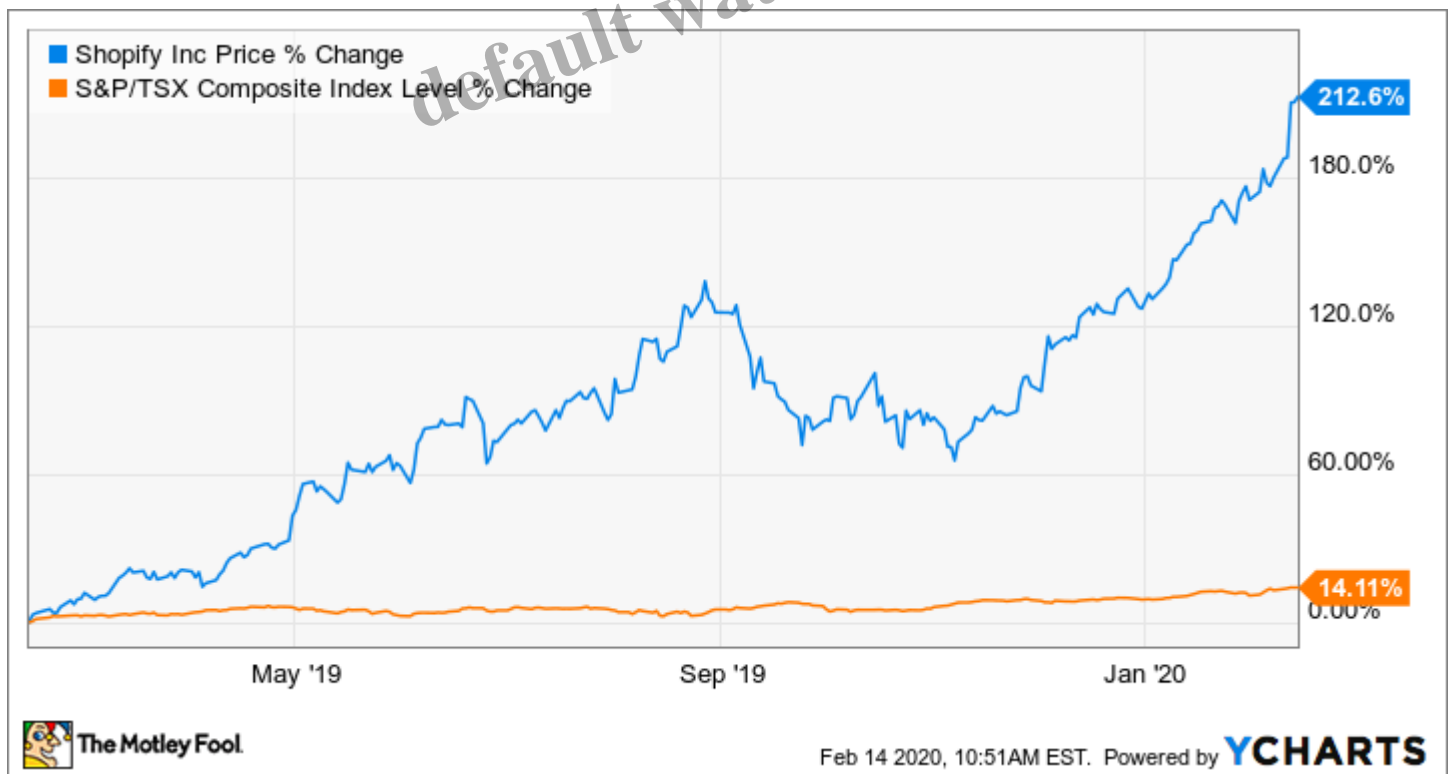




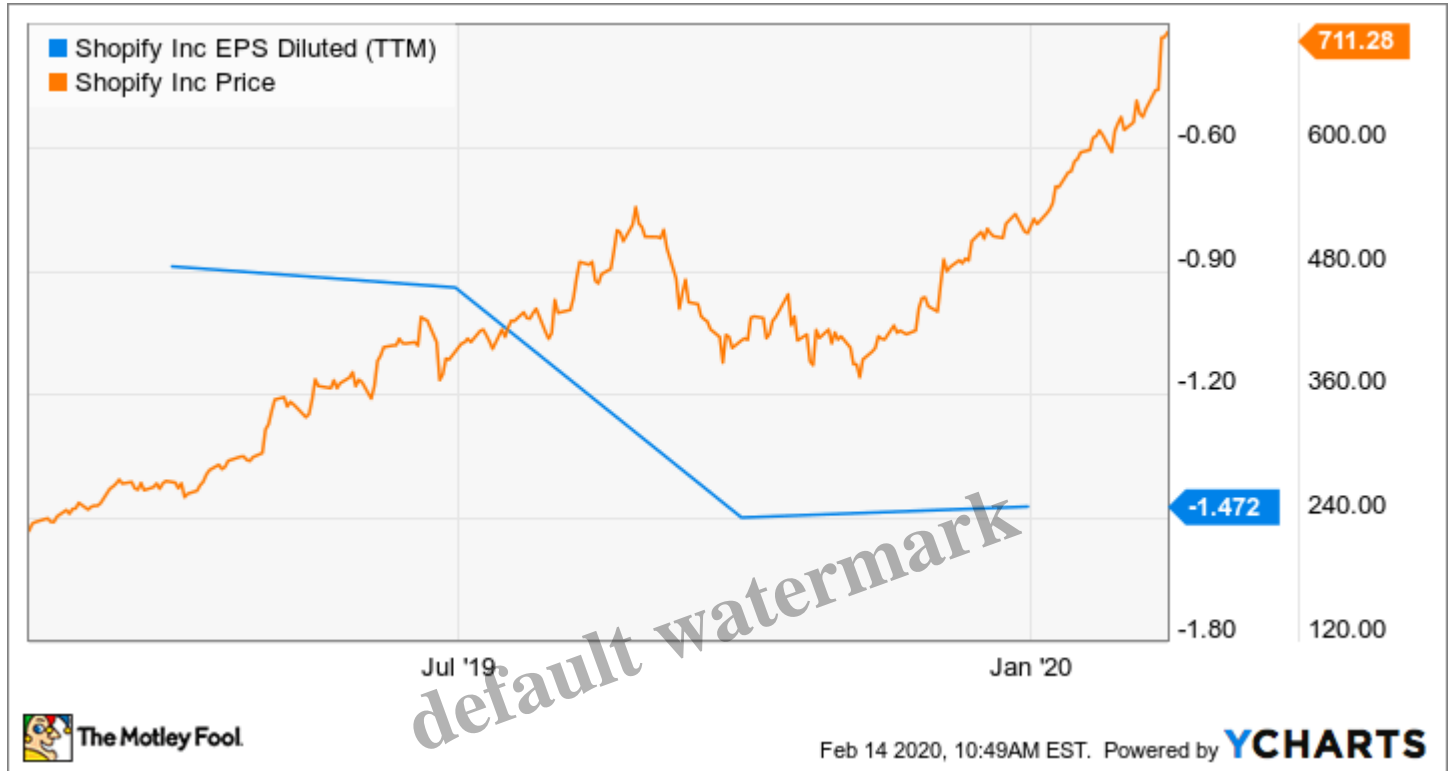
The Best Stock Predictor for Shopify (TSX:SHOP)

Description

The price of **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has mystified traders everywhere. The stock steadily and easily climbed on the exchange since its initial public offering (IPO) in April 2015. Then throughout 2019, Shopify stock entranced the attention of investors as the price rapidly climbed by over 200% from around \$230 to \$718.



Many stock market analysts, including me, have been scratching our heads wondering, “what is going on?” The reason for Shopify’s outstanding performance is not entirely clear. The trailing 12-month earnings per share (TTM EPS) has only decreased throughout the past year to over negative \$1.10 per share.



Free cash flow predicts Shopify stock price changes

Free cash flow is one of the best predictors of stock price movements. If you follow the changes in Shopify’s free cash flow, you may be able to predict changes in the stock’s price. Notice that in 2019, Shopify’s free cash flow increased from almost negative \$48 million to around \$10.9 million.

As Shopify’s free cash flow grew, the stock price climbed along with it. Then, toward the end of 2019, Shopify again reported negative free cash flow, which caused the stock to drop yet again from above \$500 to around \$400.



When Shopify first reported positive free cash flow of \$13.352 million for the quarter ending March 2019, investors reacted by pushing the price of the stock up to a high of \$541 per share in August 2019. At this point, Shopify reported a less positive free cash flow of \$1.678 million.

The fall in the quarterly free cash flow reports spooked investors. The stock price took a small tumble to just around \$390 by the end of September. Speculation regarding upcoming earnings price action briefly caused a small rise in the price to \$456.91 in the middle of October.

When Shopify announced a free cash flow of negative \$46 million for the quarter ended September 30, 2019, on October 29, 2019, the stock fell still further to a low of \$376.54 per share in November. All is well with the stock now that free cash flow is a positive \$39 million for the quarter ended December 2019. But will it last?

Can Shopify keep its operating cash flow positive?

The main question weighing on analysts' minds will be whether or not Shopify can maintain positive operating cash flow. Operating cash flow is the sum of cash from operations, financing, and investing and less capital expenditures. Cash from operations and financing should more or less fully pay for the investing activities. If a company spends more on investment than what it brings in from operations and financing, the operating cash flow will be negative.

If it weren't for the common stock issuance bringing in \$688 million during the quarter ended in September, Shopify would have been forced to report a free cash flow of over \$734 million or find another way to pay for investments.

Low to negative net income a concern

Shopify consistently reports low to negative net income. For the quarter ended in December, net income was barely \$771,000, which is practically nothing compared to the stock's market capitalization. TTM net income is a whopping negative \$124.842 million.

Meanwhile, Shopify's TTM accounts receivable is a money-losing, negative \$130,392. What's worse is stock-based compensation is positive at \$158.5 million! Stock-based compensation represents dilution to current stockholders, not growing value.

The primary profitability problem is Shopify's negative operating margin of -8.94%. Investors should trade on growing profit margins, not free cash flow. Shopify's stock value should be falling, not rising.

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