



Will Shopify (TSX:SHOP) Stock Double Again in 2020?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) has been the road to riches for thousands of investors. In 2015, shares were priced at \$35. In 2016, they rose to \$60. By 2017, they hit \$140. They've increased each year since, topping \$700 in recent months. A \$100,000 investment would now be worth roughly \$2 *million*.

The question now is whether Shopify stock can double yet again in 2020. We're well on our way, with the stock up 35% year to date.

Despite the historical rise, 2020 could be Shopify's best year yet. Don't be surprised to see this [high-priced stock](#) prove to investors that it's worth every penny.

Understand what's happening

It's not enough to know that Shopify stock continues to rise year after year. If you want to profit, you'll need to understand *why* this is happening. The reason is simple: Shopify has built a successful platform business. That's it!

The driving force behind Shopify's success shouldn't be surprising if you're familiar with the power of platforms. The most powerful tech companies on earth, from **Microsoft Corporation** and **Apple Inc.** to **Netflix Inc** and **Amazon.com, Inc.**, have all leveraged the magic of platform economics.

Here's how it works.

Rather than building everything, a platform company simply constructs the basic infrastructure, inviting third-parties to build the rest. For example, Microsoft built the Windows *operating* system, but other companies and individuals built the vast majority of applications. Amazon is similar, as it doesn't make all of the products it sells, but rather enables other sellers to reach a huge audience.

Shopify has mastered the platform model for e-commerce. Anyone, anywhere can create a digital business instantly with Shopify's technology. Everything is built-in, from payment processing to

inventory management.

This is where the magic comes in. Shopify has invited every developer on the planet to build new capabilities for its software. Shopify users can take advantage of capabilities that aren't available on any other platform. This attracts more users, which attracts even more developers, which attracts yet more users.

Once you attain platform status, it's nearly impossible for others to catch up. There's a reason why app developers only focus on iOS and Android phones. The same goes for e-commerce. Shopify's lead is already huge, and every day, the company's competitor advantage strengthens.

Here's the bet

Shopify stock looks incredibly expensive at 28 times forward earnings. But as with any stock, the valuation is an *expectations* game. The market has fully bought into the company's platform status.

It believes Shopify stands a great chance of doubling or tripling in size for years to come. After all, global e-commerce sales exceed \$4 trillion, while Shopify's market cap remains at \$80 billion.

Based on platform economics, it's a near certainty that Shopify's business will be considerably larger by the end of the decade. But will that result in stock price gains? That depends.

Over the last five years, Shopify has grown sales by 71% annually. Sales growth last year was around 50%. For such a large company, that's an incredible pace.

Judging by the valuation, the market isn't pricing in *any* slowdown in this growth. If the company stutters, even for a quarter or two, you could see a rapid compression in the valuation multiple.

Shopify stock could double in 2020, but the valuation has made it a trickier bet than the past, one with much larger downside. My suggestion: focus on finding the *next* Shopify.

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