



Here's When I'd Back Up the Truck on Shopify (TSX:SHOP) Stock

Description

If you're like many value-conscious Canadians who've missed out on the [historic rally](#) in **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)), it can feel foolish (that's a lower-case "f") to initiate a starter position while the stocks at \$700. However, it's still worthwhile to add the stock to your radar at 37.3 times sales so you're ready to act on any pullbacks given there's plenty of growth left in the name.

While the stock is looking pretty bubbly after the [broader rally in "spec tech" stocks](#), I'd argue that there's still a case for showing up late to the Shopify party, rather than choosing not to show up at all.

The small-and-medium-sized business (SMB) e-commerce kingpin is likely still in the early stages of its growth story, and with a visionary leader in Tobias Lütke at the helm, investors need to realize that Shopify stock will likely never fall to a price that would entice traditional value investors to back up the truck.

It's an expensive stock, but it's expensive for a very good reason. Still, there's no excuse for overpaying for a stock because, like it or not, even the sexiest stock on the planet is a sell if its price is substantially above its intrinsic value.

Certainly, there's no question that the growth to be had at Shopify is off the charts. And while a 38 times sales multiple is above and beyond what most would consider ridiculous, so too was the 20 times sales multiple that preceded the stock's last over 90% trough-to-peak run.

In retrospect, you could say a seemingly absurd multiple as 20 times sales, which would be extremely overvalued for most other stocks, was undervaluing the white-hot shares of Shopify.

With such insane multiples, it's easy to either dismiss the valuation and buy the stock anyway because of the longer-term fundamentals, or dismiss the stock entirely and tell yourself that you missed it and kicking yourself as the stock continues to double up.

So, just how much of a premium should Shopify's shares command? And how can one initiate a position in such a high beta stock without getting hurt when the tides finally turn on the basket of "spec tech" stocks?

A stock trading at 20 times sales means that nothing short of perfection is baked in. A stock trading at close to 40 times sales means nothing short of a blowout upside surprise is to be expected for coming quarters. That's a ridiculously high bar to jump, even for a dominant force in one of the hottest growth industries on the planet.

Is Shopify worthy of a "visionary founder" premium?

If Shopify were to come up short in the coming quarter, the stock could easily halve as expectations are reset. It's simply unrealistic to expect *any* company to blow out the numbers every quarter, unless you're speaking of a company like Shopify — a company that not only has room to run in its explosive market, but also has a visionary founder whose genius is comparable to the likes of an Elon Musk.

Sometimes you have genius managers who are well worth the ridiculously off-the-charts price of admission. While it's quite a stretch to compare Lütke to the likes of Musk, given the innovative technologies involved and the incredible progress made at Shopify over the last few years, I don't think it's a stretch to compare Lütke to likes of a visionary leader like Musk." Like Musk, Lütke has an incredible vision for his firm and the smarts to defy the odds, disrupt its market, and form a moat around it.

With that in mind, Shopify rightfully deserves a "visionary founder" premium. Unfortunately, the current 38 times sales multiple is still above and beyond a stock with such a premium attached to it.

Foolish takeaway

Investors shouldn't shun the stock and keep telling themselves that they missed it, nor should they pay whatever price Mr. Market is asking for on any given day.

Rather, investors should seek to use technical analysis to their advantage to build a position gradually on the inevitable dips.

At around 38 times sales, the stock is a tad too rich. But should shares retreat along with the broader basket of "spec tech" stocks, I'd look to \$550 as the next entry point for investors seeking to initiate a starter position.

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