



This Growth Stock Is a Must-Buy During the Selloff

Description

Let's face it: there aren't many names to choose from in Canada when it comes to growth. Commodity companies are price-takers and are susceptible to the ebb and flow of the economic cycle, while cannabis, arguably the hottest sector since the tech bubble, has proven to be a bust with several major producers currently facing bankruptcy prospects.

However, when it comes to growth, one name in Canada that has stood out for the past three years and will continue to stand out is Canada's own tech darling, **Shopify Inc** ([TSX:SHOP](#))([NYSE:SHOP](#)).

Unparalleled shareholder returns

Shopify has a history of earnings beats, and its fiscal 2019 report was no exception. To say it was a blowout year would be an understatement, with Shopify reporting a 47% acceleration in revenues to USD \$1.58 billion, driven by platform merchandise volumes of \$61.1 billion, a 49% increase over 2018, powered by Shopify's one million merchant users.

More importantly, this ramp-up in growth came at relatively stable margins with adjusted gross profits of \$879.4 million, or 55% of revenues, versus 56% in 2018, as Shopify's highest margin offering, Shopify Plus, adoption grew to 7,100 merchants, up from 5,300 in the prior year.

Going forward, Shopify looks to continue at its breakneck pace through incremental additions to its Plus platform and customer retention, by offering even more value to its merchants.

For example, earlier last year, Shopify announced the roll out of its own fulfillment network, which will rival that of **Amazon's** Prime network with two-day shipping, coupled with machine learning [driven logistical optimization](#).

What this means is that considering a merchant's sales data, Shopify's algorithms will determine where key items are being purchased, and by whom, automatically allocating the user's SKUs across its fulfillment network for optimized shipping. This will in turn allow Shopify's merchants, particularly its enterprise users, to focus solely on the selling and promotional aspects of their businesses.

Alongside increasing customer retention and value additive offerings, Shopify is also looking to penetrate further into international markets through its 20 language platform, cross-selling in multiple currencies and Shopify Payments launches in four additional countries.

Thus far, Shopify's international expansion has been well received with an increase in the number of international customers in Shopify's base to 29%, up from 25% in 2018, across its 15 geographic segments.

Finally, while not a source of growth per se, Shopify's business model of a high growth, high margin cloud-based platform deriving most of its revenues from North American markets should be relatively insulated from Coronavirus fears.

Of course, all this growth comes at a cost, and Shopify is an expensive stock on any valuation metric. However, this is a stock that returned 190% to shareholders in 2019, and given all its growth drivers, it should continue to outperform the market.

While Shopify traded at a lofty valuation of ~30 times projected 2020 sales of \$2.16 billion prior to last week, the recent sell off has brought its valuation down by 20%, to 24 times forward sales — a figure I was more than happy to pay for given this unmatched trajectory.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date

2025/09/17

Date Created

2020/03/04

Author

vmatsepudra

default watermark

default watermark