
# Can Shopify Stock (TSX:SHOP) Survive a Deep Recession?

## Description

One major question that many investors in high-growth stocks are facing these days is which of their holdings can survive a deep recession that's just round the corner.



In the Canadian market, one such stock that could fall in this category is e-commerce platform provider **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP).

One of the most-loved tech stocks from Canada, Shopify had surged more than 160% in the past 12 months, just before the coronavirus-induced sell-off started.

This price acceleration was so fast and furious that Shopify's market capitalization had swelled more than **BCE Inc**., the nation's largest telecom operator.

But that was when the coronavirus threat was limited to China and a few other countries. After the disease outbreak in most of the developed world and the widespread lockdowns and travel restrictions, the global economy is slowly slipping into a recession that will hurt businesses of all sizes.

A 64% plunge in Shopify stock from the record high is a reflection of this massive shift in investors' expectations about the future growth. The stock hit $728.13 on February 19. It's now down to $496 a share at writing.

## Shopify's growth hit

Shopify, which mostly helps small-and-medium sized businesses to set up their online stores, isn't immune to recessionary trends and certainly has to reduce its growth forecast for 2020 and beyond.

A large portion of Shopify's growth is tied with sales from "Merchant Solutions," which is based on goods that vendors sell using Shopify's platform. An economic contraction will hit such spending.

But if you're a long-term investor and your investment horizon is for the next five to 10 years, you don't need to panic. Companies like Shopify are accelerating a shift to e-commerce and will rebound strongly once this pandemic-triggered slowdown is over.

Stealing from **Amazon's** playbook, Shopify has chosen growth over profits. It's thriving in the e-commerce market space along with Amazon.

According to a recent report in the *Wall Street Journal*, Amazon is hiring 100,000 in the U.S. as millions of people turn to online deliveries at an unprecedented pace after the coronavirus outbreak.

Shopify, with its over 900,000 merchants, expanding services and access to new international markets has a diversified portfolio and is ready to take advantage of the consumer shift to online shopping.

The long-term trend favours e-commerce over brick and mortar stores. The COVID-19-triggered recession is likely to be short-lived and will serve as a catalyst in this trend.

One other strength that makes Shopify stock a good buy-and-hold candidate for long-term investors is its strong cash position. Shopify has over $2.4 billion in cash on hand and no debt.

The company was also free-cash-flow positive in 2019. During the time of a recession, the company has the option of slowing down its spending and focus on its existing markets to consolidate its market share.



## Bottom line

Shopify stock's meteoric jump in the past one year has been backed by earnings momentum and the company's potential for future growth. After the coronavirus pandemic, however, investors should expect a short-term pause in this journey.

A massive liquidity injections by governments globally and an extremely low borrowing cost will pave the way for another consumer boom, helping e-commerce and the companies behind this trend in the days to come.

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