Is Shopify Inc. (TSX:SHOP) a Recession-Proof Growth Stock?

Description

As the markets stage a powerful rebound after the steep decline, many investors wonder if this is the right time to start buying growth stocks such as the e-commerce platform provider **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP).

The answer to this question depends on which areas of the market you're targeting and your investing horizon. The deadly coronavirus pandemic has hurt some sectors a great deal, which will take a considerable time to recover. Airlines, hotels, and energy are among those sectors in deep trouble — and the turnaround won't be quick.

But the companies which facilitate e-commerce will be the first to recover their lost grounds as they benefit from lockdowns, work-from-home trends and consumers' changing preferences. For these reasons, Shopify is a great stock to buy now.

A 35% jump in Shopify stock from the lowest point this month shows that upward momentum is strong and investors see a quick rebound in the company's business. Trading at $618.53 at writing, Shopify stock is up about 20% this year, massively outperforming the benchmark index.

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.

A shift to e-commerce

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.

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.

Just before the latest market plunge, Shopify reported a very strong fourth quarter that saw sales grow by 47% to US$505.2 million. For 2020, Shopify said it sees revenue of $2.13 billion-$2.16 billion compared with analysts' projections of $2.12 billion.

The key metric of gross merchandise volume, which represents the value of all goods sold on the platform, increased 47% from a year earlier.

Another 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 a recession, the company has the option of slowing down its spending and focusing on its existing markets to consolidate its market share.

Bottom line

Shopify stock's meteoric jump in the past 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 injection 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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