Should You Buy Shopify (TSX:SHOP) Stock During the Coronavirus Pandemic?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) has had an eventful year so far in 2020. It soared to more than $700 a share by February in what was shaping up to be yet another incredible year for the tech stock. It was coming off an impressive 2019, where its share price rocketed 184% during the year. But even the high-flying Shopify stock isn't immune to the coronavirus; over the past few weeks, its gains for the year have been wiped out, and the stock is about where it started 2020 — at around $500 a share.

The question for investors today is whether the stock is likely headed lower or if it's a good buy. Let's take a look at both sides of the coin and assess what the best strategy for investors is today.

Why Shopify might be a good buy

What keeps Shopify going is its growth rate. The company has been growing by more than 40% in each of the past four quarters. And while it's not as high a growth rate as it was a year or two ago, it's still growing at a high clip. And one of the reasons for investors to remain bullish on Shopify is the same reason they may be bullish on **Amazon** — people are likely to be buying more online as consumers are unable to buy in store.

A weakened economy may offset some of that purchasing power, but Shopify may still have some decent quarters in 2020, as online sales may continue to be strong. When people are bored and looking online, they're often tempted to shop.

Why Shopify might not be a good buy

What may work against Shopify is the company's poor earnings numbers. Profitability is not something investors have come to expect from Shopify. It's often forgiven in light of the company's impressive sales growth. But that may change now, as investors become more hesitant to take risks on stocks that they are worried may not survive the impact of the coronavirus pandemic.

Shopify has been spending a lot and investing in fulfillment and even making TV shows. The company's losses may continue to soar, and that can paint a very large target for short-sellers.

Bottom line

Shopify is an online business, but it's got plenty of overhead as a result of its growth. Losses are likely to get bigger, and I'm not convinced the sales growth will be strong enough to keep investors buying the stock. I've long been a believer that Shopify is grossly overvalued and that investors should demand profitability by now.

The stock averages a beta of 1.1, meaning that it'll swing a bit more than the market. And that's not great news given the markets are still very volatile, and the coronavirus pandemic is nowhere near over just yet.

Until the markets show some sustained recovery, Shopify is a stock I'd stay far away from, as a recession could adversely impact its long-term growth potential. It's a stock to watch for now but not one I'd rush out to go buy today.

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