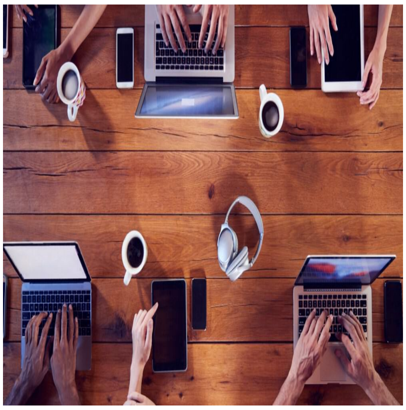

Forget Shopify (TSX:SHOP) and Invest in This Growth Stock Instead

Description

Investors are looking at multiple avenues to allocate their capital in these turbulent times. The COVID-19 pandemic has decimated stock markets, wiping off billions in portfolio value. So, which stocks are attractive in the current market environment?

Do you need to consider defensive utility and telecom companies? Is it time to invest in gold stocks or REITs? Surely, bond yields remain unattractive with rock-bottom interest rates. I believe that growth stocks continue to be attractive, especially after the recent sell-off has sent valuations lower.

Growth stocks tend to trade at a premium valuation. While they crush broader markets in a bull run, these companies grossly underperform in an economic downturn. Growth stocks such as **Shopify** (TSX:SHOP)(NYSE:SHOP) are trading 35% below its record highs.

Shopify has been a massive wealth creator for early investors. The company went public in May 2015 and has since returned over 2,000% to IPO investors and continues to benefit from the growth in e-commerce in North America.

Shopify is, in fact, the second-largest e-commerce platform in the United States after **Amazon**. In the last quarter, the company generated over 30% of revenue by subscription sales, which will ensure a stable stream of revenue in the current volatile environment.

Last week, Shopify's press release stated that the company is confident about meeting its forecast for the March quarter, but it suspended guidance for the rest of 2020. This outlook dragged the stock lower by 17% on April 2.

Shopify remains one of the top long-term bets for investors given its expanding addressable markets and improving bottom line. However, there is another technology stock that has the potential to outperform Shopify and peers in the next decade.

Roku stock is trading 50% below record highs

While the broader markets have lost 25% in the last two months, streaming device company **Roku** (NASDAQ:ROKU) is down 50% from its record highs. Roku went public in September 2017 at US$14 per share and has gained over 500% since then. Between its IPO and August 2019 (when the stock peaked), Roku returned closed to 1,200%.

Roku will be one of the biggest beneficiaries of the cord-cutting phenomenon, or the shift to consuming online streaming content. The company offers several streaming devices, including budget-friendly HD streamers and high-end 4K powerhouses. The number of active accounts for Roku in Q4 rose 36% to 36.9 million. Comparatively, Amazon ended Q4 with 40 million Fire Sticks. While Roku is an established player in the U.S., it is just starting to expand into international markets.

While the Player business accounts for 36% of sales, the Platform business generates 63% of sales for Roku. In Q4, Player revenue was up 22% compared to the Platform revenue growth of 71%.

Roku’s platform segment generates sales by fees it receives from advertisers and content creators. This also includes the licensing fee generated by integrating its services with TV manufacturers and other service operators.

The Platform business also is more profitable than the Player segment. In Q4, the Platform business reported gross margins of 62.5%, while this figure for the Player business stood at -0.5%.

In the time of worldwide lockdowns and shutdown of schools, businesses, and colleges, people are spending time at home. This is bound to increase the demand for streaming subscription services such as **Netflix**, Amazon Prime, and **Disney+** and give a boost to Roku’s Platform segment and advertising sales in these times of uncertainty.

CATEGORY

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Date
2025/08/15
Date Created
2020/04/09
Author
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