



Is Shopify (TSX:SHOP) Actually a Defensive Stock?

Description

This heart-wrenching market has become a non-stop rollercoaster ride for investors. The non-stop up and down action can make you sick to your stomach as your hard-earned gains get flushed down the toilet. I have to admit, I thought the one sector that would fall would be the high tech stocks, as their sky-high valuations seemed to be screaming for a rapid setback.

Well, that was definitely *not* the case. Tech stocks performed better than utilities in these adverse market conditions. Internet giants like **Amazon.com** ([NASDAQ:AMZN](#)) barely budged, far outperforming the market.

I suppose it makes sense in a way, given the fact that the economy is basically running [on the internet](#) at this point with everyone locked inside their homes.

What about Canadian tech?

I've made it no secret that I have been bearish on **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) for a long time. While its valuation is sky-high, it doesn't really generate any money, and it too may someday be impacted by a general recession.

That said, the stock has pulled back to become relatively less expensive than it was previously. It also benefits from the fact that the company focuses on small, online retailers. With everyone locked in their houses, internet-based retailers have a serious advantage.

Before this all started, Shopify posted significant growth numbers. Its 2019 full-year revenue grew by 47% year-over-year. Gross profit 45% year-over-year, signally substantial income potential in the future.

The company is also becoming a global powerhouse, launching 13 additional native-language sites in multiple countries. Fully 29% of its sites now operate outside of its core regions, indicating significant growth ahead when the smoke from the global slowdown clears.

The problem

The big issue facing this company will be the impact of constricted trade routes. For many businesses, their products are sourced out of other countries like China and Vietnam.

Factories in China, for example, are only starting to get back up and running again. If there is a resurgence of the coronavirus that forces them to shut down once again, the delays may be extended.

The positive side

There are likely many small businesses that sell [virtual products](#) and services whose online presence may be unaffected by the supply chain disruptions. Their stores may remain open, leaving a profitable revenue stream for Shopify.

The bottom line

Nevertheless, I think that a forward-thinking market would bet on the eventual slowdown in spending a recession might bring. In that scenario, shopping would slow down for everyone since there would, quite frankly, not be a lot of money to spend. Even Amazon can't make money if no one is buying.

This company is making fantastic progress, which could speak volumes in the future when all the global turmoil is behind us. Its online focus should partially shield it from the economic shock which has hit many industries.

Shopify is still an expensive stock, though, and could face a major setback if the global economic outlook is worse than expected. While it's not a defensive stock by any means, this situation is not as damaging to the company as it is to other companies with a physical presence.

If you want to buy an entry position, now could be a time to begin to build a position. Just don't get carried away thinking the stock will never fall.

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