



## Amazon Stock vs. Shopify Stock: Which Is the Better Buy?

### Description

The market rally on the **S&P/TSX Composite Index** has come to a halt. Plunging oil prices and continued lower spending by consumers have resulted in a pullback this week. However, several e-commerce companies, including **Amazon** ([NASDAQ:AMZN](#)) and **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) have managed to easily outperform broader indexes in the ongoing bear market.

Businesses are shut and offices are closed. The COVID-19 pandemic has kept a large percentage of the population indoors. This has accelerated the shift toward online shopping, making e-commerce giants such as Amazon and Shopify attractive bets in this volatile market.

While both these companies have crushed broader markets, which of the two is a better buy at current prices?

### Why Amazon stock is up 23% in 2020

Amazon is experiencing a surge in its online marketplace amid the COVID-19 pandemic. The company has rapidly expanded its online grocery delivery to keep up with consumer demand. According to a survey by Gordon Haskett Research Advisors, about 33% of shoppers purchased groceries online in March 2020. Around 41% of them bought groceries online for the first time. Further, **Walmart** accounted for 58% of these orders, followed by Amazon at 14% and **Kroger** at 6%.

Amazon has hired thousands of workers in its delivery and fulfillment centers to keep up with increased demand. The e-commerce giant is currently stocking up on essential products including food and cleaning supplies.

Further, as people are largely staying at home, the demand for its cloud services has also increased. The need to work from home and the transition to e-learning have contributed to this increased demand. Amazon Web Services is the company's cash cow and is expected to perform well in these uncertain times.

Amazon's other businesses, such as online streaming or Prime Video are expected to see a surge in

subscriber growth. Streaming giant **Netflix** recently announced its Q1 results and reported its best-ever quarter as it gained 16 million new subscribers. Online gaming is another trend that is experiencing stellar growth. Amazon's game streaming platform Twitch [has seen viewership double](#) amid the pandemic.

These factors among others have driven Amazon stock up by 23% this year.

## Shopify stock is gaining momentum

Another e-commerce heavyweight that has [outperformed the bear market](#) is Shopify. The stock is up 52% this year and is poised to move higher. Shopify went public in May 2015 and has since generated a monstrous 3,500% in just under five years. Its total sales have risen from US\$205 million in 2015 to US\$1.58 billion in 2019.

Shopify has managed to increase sales at an astonishing rate of 66% annually in the last five years. This has driven its stock price higher since the IPO, making it one of the top-performing companies on the equity market.

Shopify has two primary business segments, which are merchant solutions and subscription. While its merchant's segment is similar to most other e-commerce businesses, its subscription segment generates sales from ancillary services including payments, web design, and marketing.

Though Shopify generates a majority of sales from its merchant solutions business (over 60%), subscription sales account for 60% of gross profit. Its subscription business will also ensure a steady stream of recurring sales and offset business cyclicity.

Shopify is now the second-largest e-commerce player in North America with a share of 5.9%. Amazon remains the market leader with a 37.3% share. Shopify is optimistic that its expanding addressable market, robust business model, and engaging ecosystem will drive sales higher in the next few years.

Investors may be concerned over Shopify's high valuation metrics. But growth stocks tend to trade at a premium. Investors with a long-term horizon should view any major correction in Shopify shares as a buying opportunity.

## The verdict

While Amazon continues to be the largest e-commerce player in the world, Shopify is slowly gaining pace and will benefit from a growing presence in international markets. The online shopping trend is here to stay, which makes Amazon and Shopify solid long-term bets for the upcoming decade.

However, if you need to pick one stock, I would have to rely on Amazon's diversified business that has endured several economic cycles over the years. For investors with higher risk exposure, Shopify seems a no-brainer given its stellar growth metrics.

### CATEGORY

1. Coronavirus
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## TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:SHOP (Shopify Inc.)

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## Author

araghunath

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