Will Shopify (TSX:SHOP) Stock Hit $1,000 in a Market Rally?

Description

We certainly live in interesting times. Earlier this week, Canada's tech darling **Shopify** (TSX:SHOP)(NYSE:SHOP) hit a 52-week high of $946.36 per share. Although Shopify stock has since retreated, it is going parabolic. Is there anything stopping Shopify's quest to become Canada's second company to break $1,000 per share?

It certainly doesn't appear that way. The S&P/TSX Composite Index is once again struggling with volatility. The Index is down 16.26% year to date, and despite this, high-growth stocks in the tech industry are bucking the trend.

This is counter-intuitive to the perceived bias that high-growth stocks underperform in a bear market. Typically, investors flock to the safety of defensive industries as they limit their risk. As such, their willingness to pay a premium for growth diminishes.

This is not so in the bear market of 2020. Shopify's stock is up by 72% this year, and I would not bet against the company breaching the $1,000 mark. This is especially true if the market begins to rally.

A top-performing stock

Since going public in 2015, the company has consistently been among the TSX Index's top performers. Last year, the company returned 173%, and since its initial public offering (IPO), Shopify stock has returned 2,740%.

Let's put that performance into perspective. A $10,000 investment in the company at its IPO would be worth approximately $284,000 today. Why does the company outperform the markets by such a significant margin?

For starters, analysts consistently underestimate the company. Since it went public, the company has missed earnings estimates only once. Likewise, it has beat on revenue in all 18 quarters. It is not just the fact that the company tops estimates; it does so by a significant margin. On average, it has beat earnings estimates by 90% to the upside.

The second reason for the outperformance of Shopify stock is the company's growth rate. Since its IPO, the company has averaged revenue growth of approximately 65% annually. Although growth is slowing, it is still expected to grow at a rate above 40% over the next few years.

There is arguably no TSX-listed company that offers investors this level of consistent growth.

Shopify stock's valuation

Last week, a tweet by the company's chief technology officer sent the company's stock soaring. Jean-Michel Lemieux had this to say about the company's performance:

> "As we help thousands of businesses to move online, our platform is now handling Black Friday level traffic every day!
>
> It won't be long before traffic has doubled or more."

This is certainly great news for Shopify's stock. However, is it enough to justify Shopify's current valuation? If you thought the company was expensive before, it is even more so today. It is trading at a record 47.95 times sales, 36.45 times forward sales and 21 times book value. This makes it by far, the most expensive technology company on the TSX Index.

Given the fast rise, one might think the company is overbought. Surprisingly, it remained overbought for only a short period of time. After the recent dip, it now has a 14-day relative strength index of 67. Although near overbought territory, don't expect a big pullback on momentum technicals.

In fact, it's bullish across most all momentum indicators — a sign that the company is in blue-sky territory.

Although the company may see further consolidation, there is a high probability that Shopify stock will reach $1,000 per share. I would not necessarily rush out and buy the stock at these valuations, but it is certainly a buy-the-dip candidate.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date
2025/09/17
Date Created
2020/04/25
Author
mlitalien