



## Shopify (TSX:SHOP): Is It a Buy in This Stock Market Rally?

### Description

In the recent stock market rally, few **TSX** stocks have fared as well as **Shopify Inc** ([TSX:SHOP](#)) ([NYSE:SHOP](#)). Rocketing all the way to \$908, it's not only bounced back, but has also reached new highs. While brick and mortar stores remain closed due to COVID-19, e-commerce companies are doing more business than ever. Shopify, which provides a platform for such businesses, is reaping the rewards.

In its most recent quarter, Shopify smashed earnings guidance and soared on red-hot growth metrics. We still have to wait a while to see whether Q1 will be as good as Q4. If it is, this soaring stock could go even higher.

### Shopify suspends outlook

Before getting into the bullish case for Shopify, we should get one major negative out of the way:

The company recently [suspended its earnings outlook](#) for 2020, citing the unprecedented times in which we're living.

The move shocked many, as SHOP seemed like the type of business that would thrive in today's economy. As mentioned, e-commerce actually benefits from the closure of retail businesses. Shopify earns money from e-commerce transactions, so it stands to reason that it would [profit from their growth](#).

If anything, you'd expect the company to beat guidance, yet it suspended its outlook all the same. Investors got spooked, which briefly sent the stock tanking.

It's beginning to look like that was a mistake, however. When a company suspends its financial outlook, that usually means it will fail to meet it. However, it doesn't necessarily have to mean that. It could simply mean that the company is unable to predict how it will perform in a given period.

It could even mean that the company is expecting to outperform, although that's rarely the case, as executives usually consider positive surprises a good thing.

In any case, Shopify's COVID-19 press release didn't say that the company expected to underperform. In fact, it hinted that e-commerce sales from retail businesses were up. It's quite possible that Shopify's Q1 earnings will actually beat expectations. We'll have to wait until May 6 to find out, but there have been plenty of encouraging signs.

## SHOP's fundamentals

Overall, Shopify's fundamentals indicate a solid growth stock with a lot of momentum.

In its most recent quarter, the company saw its revenue increase by 47% year over year, driven by particularly strong growth in merchant solutions, which grew by 53%.

In the same quarter, the company delivered positive GAAP earnings of \$800 million or \$0.01 per share. Adjusted earnings were \$0.27 per share. Of course, with SHOP trading at \$908, that makes the stock unbelievably expensive.

However, fast-growing companies can trade at nosebleed valuations for prolonged periods. **Amazon**, for example, has always been fairly expensive compared to earnings.

Investors expect strong growth from the company, so they're willing to pay a premium. The same appears to be true with Shopify, a much younger company with more room to grow.

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