



What the Current Market Means for Shopify Investors

Description

What I find particularly interesting about market crashes and heightened levels of uncertainty and volatility in general is how darling stocks like **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) react. This amazing darling of Canada's technology sector has continued to fly high. The company's stock price and valuation remain at nosebleed levels, according to some bears.

Bulls assert the underlying secular growth trend driving Shopify's core business model is simply too strong. In other words, the tailwinds supporting Shopify should not only get the company through this turbulence but also break the sound barrier.

In this article, I'm going to discuss the bull and bear case for Shopify. I will outline why [my perspective on Shopify is shifting](#) toward a cautiously bullish perspective, despite my strong feelings on the valuation and fundamental analysis.

The bull case for Shopify

The arguments in favour of investing in Shopify continue to get stronger, as the company continues on its path of beating earnings. Shopify continues to prove to the investing community that it deserves the growth expectations that are being bestowed on the company via its valuation. What was once a "belief" stock has now become a true player in the e-commerce segment. Shopify has a tremendous growth story. The company's track record of impressive growth has earned its many bullish supporters.

The leverage to e-commerce growth provided by Shopify is a bullish growth story on its own. One aspect of the company makes it far more appealing to me of late. I now see Shopify as more of a "utilities-type" investment in the tech sector. Shopify provides the "plumbing" or "rails" on which the global e-commerce sector is built. This is particularly true among small- to medium-sized enterprises, which have been adopting e-commerce at a particularly rapid rate.

I prefer utility-style investments for a few reasons. First, utility-style investments provide safety to portfolios. This is because the long-term growth trends of such investments are typically tethered to the health and strength of the North American/global economy, broadly speaking. Such utility-style

investments include telecoms, rail, energy infrastructure, and, of course, utilities.

The bear case for Shopify

Shopify has been given a sky-high valuation by the financial markets. Some recent estimates have pegged Shopify's valuation at approximately \$60,000 per SME customer. This is a tremendous valuation that implies astronomical growth for a very long time. However, many bearish investors see this as problematic.

It is true that the fundamental drivers of Shopify's business remain strong. However, Shopify has recently been dealing with some criticism regarding its corporate oversight and "cult-like" following.

Some have recently criticized Shopify's corporate oversight in allowing new SMEs to take advantage of the coronavirus pandemic. These SMEs were setting up services to sell masks at incredibly inflated prices. Other criticisms of the stock price level now suggest that a combination of a "Tesla-cult-like" following and short-covering have driven up the company's value. These factors are completely independent of actual performance.

Bottom line

I'd have to say that Shopify really presents me with a conundrum. I can see the appeal for investors who tout the long runway of growth that Shopify provides. I can also clearly see the valuation concerns that others, including short-seller Andrew Left of Citron Research, have highlighted. The truth is probably somewhere in the middle. For now, I'm going to continue to stay on the sidelines with Shopify.

Stay Foolish, my friends.

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