Why Shopify (TSX:SHOP) Stock Is Rallying Over 5%

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock is benefiting from this crisis. While this statement might sound strange given the macro-economic pain all around us, hear me out.

It is true that Shopify stock was initially hit as this crisis took shape. But amid all of the panic, it has quickly become clear that Shopify is a solution to this crisis. And not only that, it is also the way forward after the crisis. The secular shift toward e-commerce has never been stronger and clearer.

The company's first-quarter results include some headwinds but also some strong tailwinds. The headwinds are obvious: an economic slowdown affects consumer spending and therefore the businesses of Shopify's merchants. On the flip side, the crisis is accelerating the shift to online commerce and Shopify's success.

Shopify's earnings results beat expectations

First-quarter results were strong on many fronts. Revenue grew 47% in the quarter. Monthly recurring revenue increased 25%, and gross profit increased 44%. The growth at Shopify is clearly alive and well, and is, in fact, accelerating. While the COVID-19 crisis will present short-term challenges for merchants, it will also accelerate the secular shift to online commerce.

In the March/April period, many new merchants signed on. New stores created on the Shopify platform increased 62% between March 12 and April 24. Necessity is driving this to a large extent. Businesses can no longer put off their plans to increase their online presence. They need to get creative if they are to survive this brick-and-mortar shutdown. They are responding by setting up e-commerce stores.

Importantly, Shopify's platform is attracting new types of businesses, further diversifying its customer base. This includes established companies such as **Heinz** and Lindt, and food retailers such as **Loblaw** and Farmer's Market. This is yet another testament to the value of Shopify's e-commerce platform.

Shopify stock rallies as the company responds to the

coronavirus crisis

The coronavirus health and economic crisis will certainly affect Shopify's merchant businesses. And Shopify's business in only as healthy as its merchants' businesses. Shopify is supporting its merchants through this. The company is also making adjustments to facilitate new merchant business and it is redirecting expenditures.

Shopify has increased its funding to Shopify Capital to help existing merchants. This is helping with merchant working capital needs. To help attract new merchants, the free trial plan has been extended to 90 days. Online stores are being set up faster than ever, and Shopify is offering discounts and free services.

Shopify's goal is to help its merchants remain viable over time and to help new merchants maintain some level of revenue.

Shopify stock will benefit long term from this crisis

My favourite quote from Shopify's earnings call was from CEO Tobias Lütke. He essentially said that this crisis is "pulling 2030 into 2020." The changes that were expected in 2030 are happening today. This kind of accelerated growth is huge for the e-commerce industry. But these new demands in capacity and quality cannot be met with current 2020 e-commerce software and standards.

Shopify is ahead of the curve. The crisis makes this fact even more obvious. This will drive higher adoption of e-commerce as well as migration to Shopify's platform.

Foolish bottom line

Shopify stock is rallying big today after its strong first-quarter results. It is also rallying on the company's bullish comments on trends. Shopify's business fundamentals are benefiting from this crisis. It has accelerated the e-commerce secular trend and highlighted Shopify's superior e-commerce platform. Shopify stock is looking good.

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Date
2025/08/26
Date Created
2020/05/06
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