Shopify Stock: 3 Key Takeaways From its Q1 Results

Description

Shares of e-commerce giant **Shopify** (TSX:SHOP)(NYSE:SHOP) gained close to 7% yesterday. It touched a record high of $1,043 and closed trading at $1,034.42. Investors were buoyed after the company announced first-quarter results that crushed Wall Street estimates.

Shopify reported revenue of US$470 million with adjusted earnings of US$0.19. Comparatively, analysts expected revenue of US$443.11 million and an EPS loss of US$0.18 in the March quarter. So, what drove company sales higher in Q1?

Gross merchandise value soar in Q1

Shopify's merchant solutions business experienced revenue growth of 57% year over year. Sales in this segment rose to US$282.4 million, driven by growth in gross merchandise value (GMV). In Q1, the company's GMV was up 46% at US$17.4 billion. Merchant solutions revenue accelerated for the second consecutive quarter.

Its subscription business saw a 34% growth in sales driven by growth in MRR (monthly recurring revenue).

Shopify benefits from the secular shift to e-commerce

The ongoing COVID-19 pandemic has resulted in lower consumer spending. The traditional retail sector has been completely decimated due to lockdowns. This has accelerated the shift to online shopping and contributed to Shopify's stellar growth.

Shopify is well poised to help businesses make the transition from brick-and-mortar to e-commerce. It introduced several initiatives to support small and medium businesses in these uncertain times.Shopify extended its 90-day free trial for new standard-plan signups. It also provided capital tobusinesses helping them through short-term liquidity issues. The e-commerce giant introduced local in-store pickup and delivery as well.

We can see here that Shopify continues to expand its customer base and is successfully attracting large businesses across verticals.

The macro-environment remains uncertain

While Shopify has crushed consensus estimates once again, it withdrew guidance for 2020 last month. Its top-line growth continues to grow at a robust pace currently. However, a lot depends on the impact and duration of the COVID-19.

The business shutdowns have already driven unemployment rates in Canada close to 8% as of March 2020. There are fears of an extended global recession, which might impact Shopify sales in the upcoming quarters.

Shopify will benefit from the shift in consumer spending habits as people shift to online buying for discretionary and non-discretionary goods. But it is also dependent on the ability of brick-and-mortar stores to accelerate this transition. For this, Shopify aims to redirect spending from sales and marketing towards product initiatives and increase its merchant base.

Shopify stock is trading at sky-high valuations

Shopify stock has been on an absolute tear recently. It has gained a staggering 128% since March 16 and is now up 4,200% from its IPO price. Shopify is just shy of becoming the most valued company in Canada. It has a market cap of $120.81 billion at the end of May 6, 2020, just below **Royal Bank of Canada's** market cap of $121.44 billion.

While Shopify's long-term prospects look exciting, investors should be concerned about its sky-high valuations. It has a forward price-to-sales multiple of above 40. This is significantly higher compared to peer tech stocks.

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Date
2025/08/25
Date Created
2020/05/07
Author
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