



## Shopify (TSX:SHOP) Stock: Time to Buy, Sell, or Hold?

### Description

It seems there is no end to **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock's rally. The shares of [e-commerce services provider](#) have surged 92% this year, briefly making it the most valuable company on Canada's benchmark S&P/TSX Composite index last week.

The latest jump in Shopify stock came after the company reported last week that the first-quarter revenue topped analysts' expectations, as it brought more businesses online during the coronavirus pandemic.

Sales grew by 47% to US\$470 million from the same quarter a year ago, Ottawa-based Shopify said in a statement Wednesday. Analysts had expected about \$443 million.

This robust quarterly performance made Shopify stock the best-performing Canadian company on the S&P/TSX Composite Index at a time when some of the largest companies are struggling to survive.

With surging sales, Shopify's gross merchandise volume, the key performance metric that represents the value of all goods sold on the platform, also increased 46% to \$17.4 billion. Analysts were expecting a 40% increase on a year-over-year basis to \$16.9 billion.

### Red flags on valuation

As the stock continues to rise, there are some analysts who are raising the red flag on Shopify stock's valuation. Brian Peterson, an analyst at **Raymond James**, noted that Shopify's near-record valuation is "somewhat surprising" given the uncertain consumer spending environment, especially for discretionary products.

Consumer discretionary products, sold by many of Shopify's merchants, are among the hardest hit in this downturn. Shopify in its earnings reported that gross merchandise volume through its point-of-sale channel fell 71% between March 31 and April 24, as stores shut down through the pandemic. Companies also downgraded from its Shopify Plus plan to cheaper-priced options.

The company said new stores created on its platform grew 62% between March 13 and April 24 versus the prior six weeks, driven by both first-time and established sellers. But it added, "it is unclear how

many in this cohort will sustainably generate sales, which is the primary determinant of merchant longevity on our platform.”

Shopify’s current numbers have justified [my March 31st call](#) to buy Shopify stock. The company is certainly on the right track to fuel its growth by taking advantage of this accelerated shift to e-commerce, following the pandemic.

That said, there are also signs that the rally in Shopify’s stock has gone a little far since my last call, and it’s the time to trim the position, especially when the economy is coming under severe pressure and both small and large businesses are getting a big hit

## Bottom line

Shopify stock’s meteoric jump this year has been backed by earnings momentum and the company’s potential for future growth. After the coronavirus-induced recession, however, investors should expect a short-term pause in this journey. If you hold Shopify stock, it’s a good time to take some risk off the table.

### CATEGORY

1. Investing
2. Tech Stocks

### TICKERS GLOBAL

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

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