



Shopify Stock: Will It Reach \$1 Trillion in Market Cap?

Description

Shares of Canada's leading e-commerce giant **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) have been on an absolute tear since its IPO. Shopify stock went public back in May 2015 at a price of US\$17 and has since returned a staggering 4,410%. A \$1,000 investment in Shopify's IPO would therefore have been worth \$44,100 today.

Shopify stock trades on the **NYSE** and the **TSX**. Despite the ongoing concerns over COVID-19, it has continued to touch record highs due to the accelerating trend in online shopping. Shopify's stock price has had a tremendous run in 2020, easily outperforming the broader indexes in a volatile environment.

Shopify's stock price on the TSX crossed the \$1,000 mark earlier this month. It was the largest Canadian company on the TSX in terms of market cap for a short period. Shopify currently has a market cap of \$116.4 billion. Comparatively, the **Royal Bank of Canada** has a market cap of \$118.6 and is the largest public company in the country.

But past returns don't matter much to current investors. They need to know if Shopify is a solid pick today and if it can continue to crush market returns in the upcoming decade. Will it also be the first Canadian company to be valued at \$1 trillion dollars?

Part of a high-growth segment

Shopify is one of the leaders in the e-commerce space. **Amazon** continues to lead this market in the U.S. with a share of 37.3%. Shopify is the second-largest player with a share of 5.9% and is well poised to increase this number going forward.

The dreaded coronavirus pandemic has led to business closures in several countries. As malls and shopping avenues remain shut, people have no option but to purchase goods online, resulting in the number of new stores created on the Shopify platform rising 62% between March 13 and April 24.

Shopify merchants experienced a strong uptick in sales for categories such as food, beverages and tobacco. This was offset by lower apparel and accessory sales in Q1.

In the March quarter, Shopify's total revenue rose at a stellar rate of 47% to US\$470 million. Gross merchandise volume was up 46% at US\$17.4 billion in Q1. The company's GMV increased from US\$7.78 billion in 2015 to US\$61.1 billion in 2019. Comparatively, its sales have risen from US\$205.2 million to US\$1.58 billion in the same period.

Shopify is part of a rapidly expanding market. The e-commerce shopping trend is here to stay, which will keep driving company sales higher in the next few years. Shopify depends on its merchant sales and subscription business to generate revenue.

Its merchant solutions segment [generates sales from](#) payment and transaction fees as well as shipping and delivery. Subscription revenue is driven by sales from payment processing, marketing and digital storefront services.

The key revenue driver is the company's ability to increase its merchant base. At the end of 2019, Shopify had over a million merchants on its platform. It is investing heavily in delivery and fulfilment centres that should drive merchant engagement higher and increase the retention rate.

Shopify stock forecast and valuation

Shopify stock's stellar run has meant that it's now trading at a [sky-high valuation](#). Its price-to-sales multiple is close to 50, while the price-to-book ratio is 30. Shopify continues to focus on growth and is sacrificing profit margins, a strategy that has worked well for Amazon.

In case recession fears come true, consumer spending will plummet and drive Shopify's GMV lower in the near-term. Its high valuation may also drag the stock lower, making it vulnerable in a market sell-off. However, this should not worry long-term investors who need to buy the stock at every major dip.

Shopify's stock forecast stands at US\$512.55, which is 33% below its current trading price. Wall Street analysts expect Shopify stock to correct significantly before it moves higher.

But the company's enviable growth trends make it a solid pick among tech stocks. Shopify stock will most likely be the first Canadian company to reach a market cap of a trillion dollars.

The only question is *when*?

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