



Shopify (TSX:SHOP) Just Struck a Trillion-Dollar Opportunity

Description

Social media giant **Facebook** (NASDAQ:FB) made a huge announcement yesterday. The company's Instagram platform will soon feature a shop button to allow users to shop directly from e-commerce merchants that use **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)). Facebook stock was up more than 3% on this aggressive move into online shopping.

However, I believe the announcement is a much bigger deal for Shopify. The Ottawa-based firm may have just unlocked a [trillion-dollar opportunity](#). Here's a closer look.

Facebook's stock engine

Instagram has been one of two key engines (the other is Whatsapp) driving Facebook's stock higher in recent years. In 2019, the platform reported 500 million daily active users across the world. With the ongoing pandemic, I wouldn't be surprised if Instagram usage was much higher this year.

That half-a-billion user base is largely untapped. Instagram relies on advertising for revenue generation for now, but moving into online shopping is a much bigger opportunity. Instagram is, after all, the preferred destination for the world's most famous influencers. Notably, Rihanna and Kylie Jenner have both created billion-dollar brands on the platform.

Online shopping is already a US\$3.5 trillion global opportunity. Instagram's access to younger consumers puts it on the cutting-edge of this massive industry. Partnering with Facebook gives Shopify access to 500 million eager online shoppers.

Shopify's opportunity

The upcoming "Shop" button on Instagram is prime digital real estate. Occupying that spot allows Shopify to extend its reach to new customers and new merchants. At the moment, the platform has just over a million merchants who reportedly serve over 218 million customers worldwide.

Instagram could help Shopify more than double both merchants and online customers. However, the real boost should be in Gross Merchandise Volume, or GMV. Instagram's visual platform is well-suited

to luxury brands and aspirational margins.

Cosmetics, jewelry, fashion and furniture are all high-ticket items that could be ideal for Instagram purchases and boost Shopify's GMV substantially.

In short, the partnership allows Shopify to capture a meaningful chunk of the multi-trillion dollar e-commerce market for luxury goods.

Valuation

While Facebook stock reacted positively to the news, Shopify stock lost value. That could be because the latter has already been on the upswing and could be mildly overpriced. Shopify stock currently trades at *over 60 times annual sales*. In other words, Shopify is priced-to-perfection.

However, considering its track record and immense opportunity for growth, I don't think investors can expect this stock to ever be "cheap." It may be worth overpaying for a company with such a rare position in such an exciting market.

Bottom line

Facebook is a relentless tech juggernaut. The team enters and disrupts major industries like no other. This recent entry into e-commerce on a platform that already has half-a-billion active users could unlock tremendous value for merchants and shoppers across the world.

The greatest beneficiary is Shopify. Access to prime real estate on the Instagram platform could unlock a trillion dollar market for the tech giant.

While the stock seems slightly overbought, it's a rare company with a unique growth proposition, so the price might be worth it.

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