



Shopify (TSX:SHOP): Why Now Is the Time to Sell!

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) has had a monumental run up in the stock. You'd be up 85% if you bought the stock at the start of 2020, and up over 100% if you bought during the market crash. If you bought Shopify anytime in the past five years, all I can say is congratulations!

Although Shopify is one of [Canada's best technology stocks](#), now might be a good time to sell some or all of your position. At the very least, I would not be buying here.

Shopify stock is more than pricey

The stock has always been expensive, but today's pricing is sheer froth. On almost every metric, it is ridiculously overvalued. It presently trades with a price-to-sales multiple of 48 times, almost double the valuation it was trading at a year ago. It has a forward price-to-earnings of over 5,000 times!

Of course, Shopify stock has always been pricey, and rightfully so— it is a super-well managed company very reminiscent of a smaller **Amazon**. It is thriving from the e-commerce revolution and the COVID-19 crisis has appeared to only accelerated that trend.

Yet, the stock is priced for more than perfection here. I mean, the stock can always go up, but over the long term, can it ever really sustain this momentum or “grow” into its multiple?

The company is good, but is it *that* good?

Beware: Shopify is worth more than RBC stock

All it takes is a second or third quarter slip-up in growth (which, is very possible), and Shopify's stock could crash back to more reasonable (albeit still pricey), pre-pandemic levels.

Frankly, I don't believe the positive effects of the COVID-19 crisis are enough to exceed or sustain the recent 100% run up on the stock. Shopify just became Canada's largest publicly-traded company. Yet,

anytime a stock has nudged Royal Bank out of its top spot, [there have been some really bad consequences](#) (Valeant, **BlackBerry**, and Nortel).

2020 could still have some challenges

Management raised a few concerns in its recent first quarter that could potentially impact Shopify's results and stock in 2020.

First, most of Shopify's merchants are consumer discretionary retailers (apparel, accessories, etc.). As we head deeper into a recession, sales from these avenues could be seriously impacted as consumers pull back their discretionary spending habits.

Second, Shopify's key customers are small-to-medium size businesses. Overall, many of these retailers are still facing tough impacts from the COVID-19 crisis. Despite increasing Shopify adoption rates, these smaller businesses are most at risk of failure during this time.

Third, most of its Q1 surge in new merchants was due to Shopify increasing its free trial period to 90 days. It is still uncertain whether this surge in trial usage will actually convert into long-term revenue producing merchants.

Last, Shopify saw more merchants take advantage of Shopify Capital, with loan advances increasing 30% in one quarter. There is a concern that these advances are helping to stabilize (or bailout) business operations, not helping to grow those businesses. This could mean that an increasing group of merchants are facing financial and operational stress. As a result, management has increased its allowance for loan losses.

The Foolish bottom line

In conclusion, Shopify is obviously thrilled by its strong stock momentum. It wisely capitalized by issuing equity at a monumental \$700 per share, which will certainly strengthen the business for the long run.

Yet, Shopify's first-quarter results revealed a thread of caution that should not be ignored. Shopify is obviously a great Canadian and global tech stock. However, it is not completely immune to an economic downturn.

Any type of disappointment in future results could lead to significant downside in the stock. Consequently, I would sell some today, and perhaps buy back later when the stock price returns to reality.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)

2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date

2025/07/05

Date Created

2020/05/21

Author

robbybrown

default watermark

default watermark