



Rally in Shopify (TSX:SHOP) Stock: Should You Buy Now or Wait for a Pullback?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) is one of those few stocks that emerged unscathed in the coronavirus-led market crash. Moreover, Shopify stock [has been a star performer](#), with an exceptional growth of over 193% in one year. Meanwhile, it has more than doubled so far this year.

COVID-19 pandemic: A boon for Shopify

Investors should understand that the COVID-19 pandemic came as a boon for e-commerce businesses, and created a significant opportunity to make money from it. Major e-commerce stocks like **Amazon** and **Square** gained about 25% and 56%, respectively, starting from April 1 till May 22. In comparison, Shopify's growth was meteoric as it surged around 98% during the same period.

With people staying at home and remote work becoming the new norm, the demand for Shopify's services increased exponentially. Many new merchants shifted their offline businesses to online commerce, while customers largely adopted e-commerce activities, which justified Shopify's growth.

To give an idea, Shopify saw a spike of 62% in new online stores on its platform from March 13 to April 24. The traffic was such high that was comparable to the "Black Friday-level traffic" each day during April. The company also took every possible step to help its merchants on its platform.

Shopify extended 90-day free trials and offered gift card on all plans for its merchants. The company also supported its point-of-sale merchants with in-store and curbside pickup and delivery.

So will Shopify stock cool off after surging so much or will it continue to rise after a short pullback?

Can Shopify sustain the growth momentum?

Even before the outbreak of the pandemic, Shopify has performed exceptionally well on the financial front. Shopify's top-line and monthly recurring revenues (MRR) have grown at a breakneck pace. Besides, the company has managed to drive adjusted gross profit dollars higher and lowered operating

expenses as a percentage of sales.

In the [most recent quarter](#), Shopify's top-line grew about 47% year over year, reflecting benefits from both higher subscriptions and an increase in transaction volumes. The company's subscription solutions revenue grew 34% in the first quarter.

MRR also increased 25% on a year-over-year basis due to the addition of new merchants on Shopify's platform. Investors should note that food giants like Heinz and Lindt recently joined Shopify's platform. Meanwhile, on its home turf, Shopify onboarded grocery chains like Loblaw and Farm Boy to its platform.

One might argue that Shopify's quarterly revenue growth rate is decelerating. Moreover, growth in cancellations of Shopify's high-value subscriptions is a concern. However, the deceleration in Shopify's top-line growth is due to the high base effect.

Further, subscription downgrades didn't surprise me much as it was apparent that the companies will downgrade their subscription plans to cheaper ones to trim their costs amid uncertainty in the short term.

Investors should note that Shopify stood steady during the recent stock market crash, thanks to its robust platform and unmatched services. Besides, the company maintains a strong liquidity position with \$2.36 billion in cash and cash equivalents.

Bottom line

The steep up-move in Shopify stock calls for a pullback. Further, the subscriptions and transaction volumes could soften a bit as the economy gradually opens up and returns to normal. Shopify is currently trading at over 50 times its sales, which makes it extremely susceptible to volatility, considering that the **S&P 500** typically carries a P/S ratio between one and two.

Shopify stock also has a beta (five-year monthly) of 1.5, implying that it will strongly react to the high volatility and uncertainty in the market.

However, Shopify's robust business model, expanded offerings, and operational efficiencies bode well for long-term growth. Further, the demand for Shopify's offerings will continue to rise as more and more businesses transition to omnichannel.

Investors with a long-term horizon shouldn't be scared of Shopify's high volatility and premium valuation. Further, any pullback in Shopify stock presents an excellent opportunity to grab a piece of this high-flying stock.

CATEGORY

1. Coronavirus
2. Tech Stocks

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2. TSX:SHOP (Shopify Inc.)

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