



Is Shopify (TSX:SHOP) a Millionaire-Maker Stock?

Description

This pandemic brought about a once in a decade market crash. One of the few stocks that managed to rally and, thanks to its sheer magnitude, contributed to the stability of the TSX was **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)). Even now, the stock is trading at about 93% higher than its start-of-the-year value.

As one of the best growth stocks on **TSX**, it is rightfully overvalued. Many investors and analysts believe that it's pushing past the adequate boundaries at its current peak, and it's now dangerously overvalued.

Currently, its forward price-to-earnings value is about 298 times, and price-to-book is 28.8 times. The goodwill makes up over 11% of the company's total assets.

Despite its overvalued position, there is little doubt that Shopify is still a millionaire-maker stock.

A millionaire-maker stock

Shopify stock grew by over 2,800% in the past five years, thanks in part to its rapid growth since the fall in March. It means that if you invested just \$36,000 exactly five years ago, you would be sitting on a million dollars right now.

A case can be made that Shopify's current growth rate is too fast to be sustainable, and the stock is bound to normalize in a few weeks or months.

Even if we discard the glory-days growth of Shopify, how much growth a stock really needs to make you a million dollars? \$50,000 growing at a pace of 83% a year can make you a millionaire in five years. And that's less than Shopify's current five-year CAGR (97%).

Even if we take a mere fraction of it (one-fifth), with the same capital, Shopify growing at a rate of 19.4% can make you a millionaire in 17 years.

Depending on the number of years you have to grow, your capital, and the promise that Shopify will at least keep growing at a fraction of its current pace, it's safe to say that it's a millionaire-maker stock.

The underlying danger

Such growth cannot be without its risks. Currently, its [overvaluation](#) is one of the reasons that investors are a bit wary of this stock. It's one of the largest stocks presently trading on the TSX, and many investors are sure that this inflated growth will soon crash down to a more rational, pre-pandemic valuation.

One of the reasons for that is Shopify's primary consumer-base, the small- to medium-sized businesses, is the most vulnerable bunch if a post-pandemic recession hits.

Some other troubling news is from 2020's first quarter's results. The operating income, which has been in the red since 2015, dropped further, as Shopify funnels a great deal of money into research and development. But it also brings down the EBITDA and net income margin. At 5.1%, the return on equity is also low at negative.

Foolish takeaway

It usually pays off to be prudent. Even if Shopify is a millionaire-maker stock, you don't want to buy it when its stock price is [overly inflated](#). You can wait for it to normalize and resume a stable growth pace before making an investment in Shopify.

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