



## Will Shopify (TSX:SHOP) Be As Hot After Five Years?

### Description

The epic rally in **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) has literally thrashed bears so far this year. The stock continued to march higher despite the valuation concerns and even the broad market weakness.

### Shopify after five years

Ever imagine what will be your worth if Shopify grows at the same pace for the next few years? Given its historical returns, if the e-commerce titan follows the same growth path, a \$50,000 investment will accumulate to an astounding \$1.6 million at the end of five years.

Shopify has been one of [the biggest wealth creators](#) for its shareholders and could continue to do so.

However, it wouldn't be wise to demand similar growth from a company throughout its life. Companies generally get slow as they mature. Shopify is still in its growth phase and will soon slow down as it matures over the next few years.

In fact, Shopify has started to show such trends recently. In 2016, it reported revenue growth of 90% compared to a year earlier. The topline growth has fallen consistently since then. In 2019, its year-over-year revenue growth was 47%. While that's still impressive growth, it also indicates a steep fall.

A large section of the global population shifting from brick-and-mortar stores to online shopping has been the foundation for Shopify's growth. Moreover, lockdowns and the pandemic have even more stressed the importance of digital presence.

Thus, Shopify witnessed a huge traffic surge from small and medium-scale businesses in March and April. In turn, it delivered better-than-expected earnings in the first quarter.

It seems like Shopify's earnings and cash flows matter a little to investors. What they value more is its ability to become the next **Amazon**.

## New product launches indicate aggressive growth plans

Shopify has a large addressable market and has strong growth prospects. More and more businesses will use its platform to set up their online stores.

Its new product range indicates aggressive growth plans of the company. Last month, it introduced Shopify Balance, which mainly targets independent businesses, and helps manage cash flows better.

It also [introduced](#) Shop Pay Installments, its new pay-later option for customers, which offers more flexibility at no extra cost. These new products will be launched later this year.

Despite all these growth plans, however, Shopify is still less likely to grow at its historic pace as the first-mover advantage wanes. E-commerce is not a high-barrier to entry in the industry, and the competition over market share will become severe in the years to come.

This will likely be reflected in the stock sooner than later. Based on the next 12-month sales estimates, Shopify stock is trading at a price-to-sales valuation multiple of 50 times earnings! Shopify stock fell approximately 15% recently since its record highs last month.

However, it still looks enormously overvalued, as the stock has been running well ahead of its financials for a long time.

While Shopify is a great company that could well continue to expand at an above-average rate, it has to be re-priced first before moving further higher.

### CATEGORY

1. Investing
2. Tech Stocks

### TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

### PARTNER-FEEDS

1. Business Insider
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### Date

2025/08/24

**Date Created**

2020/06/05

**Author**

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