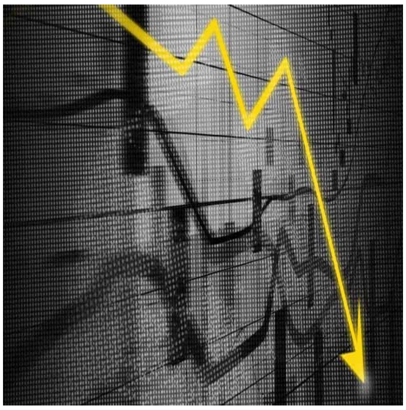

Shopify (TSX:SHOP) Drops 20% From the Top: What Should Investors Do?

Description

The e-commerce titan **Shopify** (TSX:SHOP)(NYSE:SHOP) became the most valuable company on the Toronto Stock Exchange last month. The stock has largely defied any downward pressures and holds the crown of top gainer stocks of 2020 among Canadian bigwigs.

However, the stock has trended lower recently and has fallen almost 20% since record highs late last month. So, is it an opportune time for investors to jump in and be a part of its next leap? Or will it correct more, given the steep surge? Let's take a look.

Shopify: What should investors do?

Shopify is the second biggest e-commerce company globally behind **Amazon**. The stock returned 50% in 2018, 170% in 2019, and 95% so far in 2020.

Thus, it is reasonable to assume that Shopify stock that had such a colossal run may fall more. Its current valuation, even after a 20% fall, does not justify its financial performance.

Yet, I still see this correction as a lucrative opportunity to enter Shopify. If investors slice their purchase in maybe two or three tranches, the averaging will ensure a lower cost for the overall investment.

More downside in Shopify stock from its current levels can't be ruled out completely. Thus, a big one-time investment at this point seems ill-advised.

Shopify remains a high-growth company

Shopify has been a tremendous wealth creator for its shareholders for the last several years. It has a huge addressable market and has appealing growth prospects. It powers more than one million businesses spread over 175 countries.

Notably, its revenues have grown almost 70%, while the stock has grown 100% compounded annually in the last five years.

I believe that Shopify might not replicate the same performance for the future, but it will still be a high-growth company. Its superior top-line growth will fall gradually maybe over the next five or 10 years. Thus, it will likely continue to enjoy above-average revenue growth for the foreseeable future.

The online store enabler has been fast adapting to the changing world. Its new product launches, which are due later this year, underline Shopify's aggressive growth plans.

Changing shopping trends will continue to shift a higher number of consumers to online platforms. The pandemic and lockdowns have further increased the need to expand digital presence for small- and medium-scale businesses. All these factors will continue to benefit Shopify.

The Foolish takeaway

Shopify stock has been running well ahead of its financials for a long time. The stock continued to soar higher despite a profit decline in 2019 compared to a year earlier. Based on analysts' sales estimates for 2020, it is trading at a price-to-sales multiple of 48, notably higher than its historical average.

Even if Shopify stock looks weak, consider putting a part of the total investment at this point. The stock might not remain in the correction territory for long as market participants pounce on it again.

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