



Can Shopify (TSX:SHOP) Stock Still Make You Rich?

Description

Over the past five years, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has made many investors wealthy. On its first day of trading, it closed for \$34,94. As of this writing, it traded for \$1,242. That's a 3,456% return.

If you'd invested in SHOP on the date of its IPO and held until today, you'd have over \$300,000 in the bank. This is easily one of the best returns you could have realized investing in TSX stocks over the past decade. While cannabis stocks also achieved high returns in the early days, their bubble deflated long ago. SHOP, however, is still going strong.

If Shopify can keep up its past performance into the future, it will continue making people rich for years to come. But that's the rub. A market-beating run can't go on forever, and SHOP has been beating the market by huge margins for half a decade. This implies that the stock's meteoric rise has to end sooner or later. But with a market cap of \$145 billion, the company is nowhere near as big as the Silicon Valley giants it's often compared to.

That could mean that SHOP still has a ways to go. Depending on how things play out, the company could keep delivering superior returns to investors for years. The reverse could also happen. I'll explore that in just a minute. First, let's take a look at how Shopify has been doing recently.

Strong performance, despite COVID-19

One fact that could argue for holding SHOP is that the company performed very well in the COVID-19 era. In the first quarter, the company [grew its revenue by 47%](#) and its adjusted earnings by 210% year over year.

Both of these figures are significant. The 47% revenue growth is big, because there was no deceleration from the prior quarter — previously an issue for Shopify. The 210% adjusted earnings growth is encouraging, because it's the biggest such jump the company has ever posted.

But Shopify's GAAP earnings are still negative, so it's a mixed bag. But from a pure growth

perspective, there's no denying that Shopify did well in the COVID-19 era.

An extremely expensive stock

One fact that could make a bearish case for Shopify is [the stock's valuation](#). At current prices, SHOP trades at 85 times sales and 47 times book value. These are both extremely high ratios. If Shopify didn't see any revenue growth, then it would take 85 years to pay for the company out of its own sales. Of course, the company *is* seeing revenue growth, but the level of growth we're seeing now won't last forever. If the company slows down soon, then it's current valuation will be impossible to justify.

Foolish takeaway

Shopify is Canada's number one tech stock for a reason. With red-hot revenue growth and an increasingly prominent presence in e-commerce, it's the biggest tech success to ever come out of this country. Naturally, that has gotten a lot of investors excited. And indeed, SHOP has made many of them rich over the years. But today, Shopify is one of the most expensive stocks in the world. Who knows how long this will go on for, but if you decide to invest, make sure you proceed with caution.

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