



Can Shopify's (TSX:SHOP) Stock Price Move From \$1,200 to \$1,500 in July?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) has been the poster child of stay-at-home stocks, which skyrocketed amid the COVID-19 pandemic. The pandemic locked people in their homes and changed the way they work and shop. E-commerce platforms **Wix.com** and Shopify, and video-calling platform **Zoom Video Communications** saw a sudden surge in traffic during the lockdown period. Stocks of Zoom, Wix, and Shopify surged a whopping 260%, 138%, and 95% year to date and are still growing. This surge leaves many questions unanswered. When will this stock rally end? What if these stocks fail to meet investors' inflated expectations?

The stock market rally distorts the economic reality

The stock market performance is considered as one of the economic indicators. However, the V-shaped recovery of the **TSX Composite Index** since April is a stark contrast to the ailing economy, which is suffering from rising unemployment (13.7% in May) and falling GDP. Investors are not acting rationally, thereby stretching the stocks' valuation.

Stock prices of Shopify, Wix, and Zoom increased during this reality-distorting stock market rally. There is no doubt that the three companies have a bright future. But more than 100% growth in their stock price in just three months has raised red flags on their valuations. This inflated price comes after expectations that sales would grow 100-150% during the lockdown period. If these companies fail to report triple-digit revenue growth in their second-quarter earnings, their stock prices could drop significantly.

Shopify's stock price momentum

Shopify has seen a massive surge in the number of merchants creating their online stores on its platform. Food and grocery giants like **Heinz**, **Lindt**, **Loblaws**, and Farm Boy subscribed to its platform. Shopify still has another month to go before it releases its second-quarter earnings in early August. A lot can happen in a month.

In the last three months, Shopify stock has soared 50%, 18%, and 20%, which equates to an increase of \$150-\$300 every month in dollar terms. If this trend continues, [the stock could cross the \\$1,500 threshold in July](#), which represents a 20% upside. If you invest \$10,000 in Shopify now, you could earn \$1,900 in just one month.

But Shopify stock is already oversold, with a Relative Strength Index (RSI) of over 70. Moreover, the stock's 100% rally is not backed by volumes, which means there are not many buyers or sellers in the market. There was a \$50 gap between the closing price of March 23 and the opening price of March 24. A similar gap of \$44 was witnessed on June 15, when Shopify announced its partnership with **Walmart**. This price gap shows that some investors are willing to pay a hefty premium to own Shopify stock. It is these bullish investors who are driving the stock price.

Why are some investors bullish on Shopify?

Some investors are bullish on Shopify, as they believe that the company can become the next **Amazon** ([NASDAQ:AMZN](#)) by 2030. In the last decade, Amazon stock has grown from US\$118 to US\$ 2,680. If you had invested US\$10,000 in Amazon in July 2010, you would have earned US\$235,600 by now. Even if Shopify succeeds in replicating 50% of this growth, it means US\$118,000 worth of passive income after 10 years. A possibility of such growth is too attractive to ignore. Hence, some bullish investors did not hesitate to pay even \$87 for just \$1 of sales per Shopify share.

The bullish investors are not wrong to see the long-term upside in Shopify. Last year, the company became the second-largest e-commerce platform in the U.S., accounting for 5.9% of all U.S. retail e-commerce sales. Amazon continued to be the market leader with a 37.3% share. Shopify is ganging up with Walmart, which has 4.7% U.S. e-commerce market share, to [compete with Amazon](#) in the third-party marketplace.

What should investors do?

Shopify stock is not a buy at \$1,200, because there are not many sellers or buyers for this stock in the market. Moreover, there is a risk of another stock market crash if a second wave of the pandemic hits Canada in July. You could be stuck with an expensive stock that has very few buyers.

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