



How High Can Shopify (TSX:SHOP) Fly?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock defied the laws of gravity again, with shares skyrocketing past the \$1,400 mark to hit a new all-time high. Of all firms out there, it's hard to imagine one with pandemic tailwinds that are as strong as those that are facing Shopify's back right now.

Shopify is a lifeline for many small- and medium-sized businesses (SMBs). Its e-commerce platform is helping many firms keep the lights on through this unprecedented crisis. The longer this pandemic drags on, the more pressure SMBs will face, and the more Shopify's product becomes more enticing.

And once this pandemic ends, Shopify's newfound SMBs will have a chance to heal from the [coronavirus-induced disruptions](#), and once their balance sheets are repaired, you can be sure that they'll be upsold to by Shopify, with its growing suite of invaluable offerings.

Either way, Shopify is walking away from this crisis as a winner.

Shopify's pandemic tailwinds are nothing short of profound

Back in mid-April, I'd urged investors to back up the truck on Shopify stock before it had a chance to break out, noting that the "spec tech" play was not nearly as expensive as it seemed given the pandemic tailwinds that could send SHOP stock above and beyond its February heights.

"With many SMB retailers closing their doors amid the coronavirus pandemic, e-commerce has become the only way to generate revenue. Through the eyes of financially distressed SMB firms, a firm like Shopify is seen as a lifeline through these dark times." I wrote in a [prior piece](#), encouraging investors to buy amid Shopify's recovery from the coronavirus crash. "Sure, newfound e-commerce sales won't be nearly enough to offset sales at certain brick-and-mortar locations, but they may just be enough to keep the lights on until the coronavirus nightmare is over for firms that would have otherwise closed shop permanently."

I also commented on the valuation, urging investors to buy SHOP stock in spite of the seemingly lofty valuation at 35 times sales, noting that COVID-19 was to act as a "digitization accelerant for SMB firms

that have been putting it off over the years,” making the business worth a heck of a lot more than it was before February.

Is SHOP stock still not as expensive as it seems?

Shopify stock will probably never trade at a valuation multiple that’s anything short of ridiculous. At least, not over the next decade, while the company’s still in the early chapters of its secular growth story. While growth and momentum investors have been rewarded handsomely thus far for ignoring the fundamentals (if you bought when my “breakout” piece was published, you’re now sitting on a double), one must always ensure due diligence to make sure they’re not caught on the receiving end of a reversal.

Nobody wants to pay up for many years’ worth of growth upfront. And with the valuation continuing to be raised on SHOP stock thanks to the perfect storm of tailwinds, there’s always the chance that you’ll be left holding the bag, as other enriched investors head for the exits by chasing momentum blindly.

At the time of writing, Shopify stock trades at an unprecedented 68 times sales, making the e-commerce kingpin likely to be one of the most expensive stocks you’ll ever come across. The 35 times sales multiple when I recommended the stock a few months ago now seems like a steal in hindsight.

How much higher can Shopify stock fly?

I certainly wouldn’t be surprised to see Shopify become a \$200 billion company in the next few weeks. Given the average of 21 analyst price targets is just over \$1,100, though, it looks like the “pros” are bracing themselves for a mild 10-15% correction.

Since my original recommendation, nothing massive has changed with the Shopify story. Heck, it’s hard to imagine how it could get even better from here. With the price-to-sales (P/S) multiple now above and beyond its mean levels, I’d urge caution with Shopify stock at these heights and wouldn’t rule out a 30-40% drop.

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