Is Shopify's (TSX:SHOP) Explosive Stock Rally Sustainable?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) has caught the attention of all North American investors. The stock is in its explosive growth stage, the kind which every investor wants. Those who invested in its IPO in mid-2015 are seeing their money grow 40-fold. If I convert this into dollars, a $10,000 invested in mid-2015 would be $400,000 today.

Most of this growth has arrived just this year with the COVID-19 pandemic. You can still jump onto this tech rush and make some money only if you are ready to risk losing some money if the market moves otherwise.

With high returns comes high risk. No one can become a millionaire without taking risks. The catch is to take a calculated risk. Shopify is a stock worth taking the risk. But don't jump to buy the stock right now.

Beware: Shopify is overbought

Shopify stock has increased over 170% since April, but its rally is not backed by trading volume. This low volume means that there are a few sellers and buyers in the market. And the significant jump in its stock price is coming from the few bull investors that are willing to pay hefty premiums to buy the stock.

In the last three weeks, there were two instances when Shopify stock rose more than 8% in just one day. In both cases, there was a massive gap in the closing price of the previous day and opening price of that day. The first instance was on June 15, when the company announced its partnership with **Walmart**. At that time, its stock opened at a premium of $44.7.

The second instance was on July 2, when the company announced its partnership with **Chipotle Mexican Grill**. At that time, Shopify stock opened at a premium of $121, and only 206,000 shares were traded, which is lower than its average trading volume of 289,000 shares.

Buying Shopify in such a market is risky as the stock is already overbought, which means there are more buyers than sellers. You may be at a disadvantage if you buy the stock now. Wait until more sellers appear and sell on the next rally. You will then will be in a position to earn the hefty premium from buyers.

Now, the question is, why are these few investors willing to pay such a high premium?

Bullish investors are betting on Shopify’s revenue growth potential

Investors are betting on Shopify’s revenue growth. Shopify is a Software-as-a-Service (SaaS) business which aims to secure large enterprise customers who buy premium subscriptions for a longer term. Its recent partnership with large brands like Walmart and Chipotle will bring significant incremental revenue , thereby revising analysts’ revenue estimates for the e-commerce company upwards.

Between June 15 and July 2, three Wall Street analysts raised their price target on Shopify by 15%-35%, which drove the stock’s price up 38%. All three analysts raised their price targets on the back of higher revenue estimates for the company.

Shopify is in the hyper-growth stage, with a revenue CAGR of 50% in the 2015-2019 period. Piper Sandler’s analyst Brent Bracelin expects Shopify’s revenue to reach US$12 billion by 2025, which represents a CAGR of 39%.

At $1,397, Shopify stock is trading at 96.6 times its sales per share, which means that investors are willing to pay $96.6 for every $1 of sales. This valuation suggests that investors are pricing the stock for the next five year’s sales. If this is true, Shopify’s stock could reach as high as $1,700 given Brent Bracelin’s revenue estimate.

How can investors make money?

The Walmart and Chipotle partnership will lead the way for Shopify to win many more deals from larger enterprises. Such large accounts will give Shopify long-term recurring revenue from

The online retail spending is accelerating in the age of COVID-19. As long as this wave of online shopping lasts, Shopify stock will continue to grow. You can still surf this wave and make some short-term gains.

Buy Shopify when it declines as the stock will rise once again on any positive news that can bring incremental revenue. However, the stock would fall when the momentum slows, as investors have already priced in the next five years of revenue estimates.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Tech Stocks

Date
2025/08/26
Date Created
2020/07/03
Author
pujatayal