



What's Driving Shopify (TSX:SHOP) Stock to New Heights?

Description

If you are still not bullish on **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)), you have just lost the opportunity to earn \$3,800 from \$10,000 in less than 20 days. The stock rose 38% since mid-June — when it was trading near its all-time high. This rally came as one by one Wall Street analysts are becoming bullish on the company's short and long-term outlook.

Moreover, big brands like **Walmart** ([NYSE:WMT](#)) and **Chipotle Mexican Grill** ([NYSE:CMG](#)) are now partnering with Shopify.

The COVID-19 pandemic forced most people to stay at home. This new normal has changed the way people shop, thereby accelerating the move from physical stores to online stores. Walmart's U.S. online sales growth accelerated from 37% in full fiscal 2020 to 74% in just three months ended April. The Wall Street analysts noted that this shift toward online shopping continued even after the economy reopened in May and June.

According to **RBC Capital Markets** estimates, U.S. online retail sales accelerated for the fourth straight month in May, with sales up 31% year over year). Baird analyst Colin Sebastian estimates that the shift to online shopping in the U.S. will increase the annual online retail spend by around \$200 billion. The growing online spending has encouraged companies to boost their e-commerce programs.

Shopify-Walmart partnership

Shopify stock jumped more than 8% on June 15 when the company partnered with Walmart. Shopify merchants have to opt to connect their Shopify store with the Walmart seller account. They can then display their products on Walmart.com for free. However, if they sell any product through Walmart, they have to pay the retailer a referral fee.

This partnership will help Walmart expand its third-party marketplace. It can reduce its exposure to unvetted foreign merchants from countries like China by adding Shopify's domestic merchants. This partnership will help Shopify give its merchant's exposure to Walmart's vast customer base and provide incremental revenue to both the companies.

Shopify-Chipotle partnership

The second time Shopify stock jumped over 8% was on July 1, when the company [partnered with American restaurant chain Chipotle](#) to create an online market for farmers. In the pandemic times, farmers are significantly impacted by reduced demand from hotels, schools, and restaurants.

Hence, Chipotle is helping them create online stores to sell meat, dairy, grains, and other items directly to consumers. The restaurant chain will pay the hosting fee for these online stores for the first two years.

The above partnership will help Chipotle enhance its online presence, build consumer confidence, and support its suppliers. The partnership will help Shopify increase its recurring revenue from subscriptions and boost its transaction volume.

Year	2013	2014	2015	2016	2017	2018	2019	2020*
Shopify's YoY revenue growth	112%	109%	95%	90%	73%	59%	47%	39%

Wall Street analysts grow bullish on Shopify

The U.S. retail industry is seeing a structural change as consumers' buying patterns are permanently shifting from offline to online. Five straight months of increase in online retail spending show that many consumers have moved to the digital age.

Amazon and Shopify are at the centre of this secular trend. Shopify has a broader scope to grow because it's still a small fish in the e-commerce ocean. The above partnerships with big brands will help Shopify grow in the short term, and its investment in building a [robust ecosystem](#) will add value in the long term.

RBC analysts expect Shopify's revenue to increase at a CAGR of 35% from US\$2.3 billion in 2020 to US\$25 billion by 2028. Baird analyst Colin Sebastian expects Shopify's revenue to increase at a CAGR of 21% from US\$2.2 billion in 2020 to US\$10 billion by 2025. The company's revenue has grown at a CAGR of 29% in the 2015-2019 period.

Analysts' estimates suggest that the company's revenue growth rate, which has been decelerating in the last few years, will accelerate in the next decade. This growth will come from accelerated online retail spending, its adoption by large brands, and increased monetization of its merchant solutions like payments and shipping.

What should investors do?

Other Wall Street analysts will follow RBC Capital Markets and Baird and increase their price target for Shopify. It is a growth stock that can give you both short and long-term returns.

However, the stock is currently overbought. Hence, investors should keep an eye on it and buy on any dip.

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1. NYSE:CMG (Chipotle Mexican Grill, Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. NYSE:WMT (Wal-Mart Stores Inc.)
4. TSX:SHOP (Shopify Inc.)

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