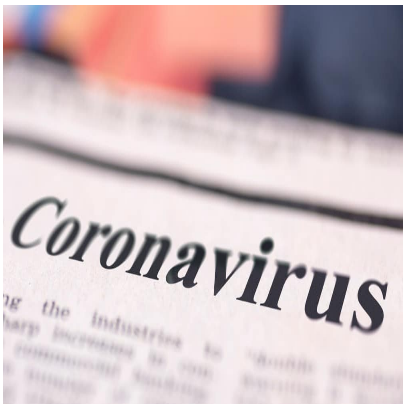

Why Is Shopify (TSX:SHOP) the Ultimate Virus Stock?

Description

The COVID-19 pandemic has changed the way people shop, work, play, and pay. This shift in consumer behaviour has given way to “virus” stocks. Such stocks have benefited from the coronavirus-driven lockdown. Among them are **Shopify** (TSX:SHOP)(NYSE:SHOP), **Zoom Video Communications**, **Netflix**, and **PayPal**. These stocks are trading near their all-time highs as they saw a sudden surge in traffic. Shopify has become the ultimate virus stock on the **Toronto Stock ~~Exchange.~~**

Shopify has come a long way, increasing its revenue at a compound annual growth rate (CAGR) of 50% from US$205 million in 2015 to US$1.58 billion in 2019. The driving force behind its growth is the rising penetration of mobile and internet, and significant technological advancements in cloud services and analytics such as advanced shipping and digital payments.

Moreover, the considerable growth in the economy and consumer spending has attracted more customers and retailers toward online shopping.

The emergence of online shopping

An online store is easier to operate and is also cost-effective than a physical store. An online store eliminates the cost of real estate and the need for more employees. Moreover, sellers can reach a wider audience online in a more targeted and cost-effective way.

Online stores help reduce the overall costs of operating a store. Sellers can pass on these savings to their consumers in the form of discounts and gift cards, thereby increasing consumer loyalty.

But there are still many retailers and customers that prefer brick-and-motor stores and have little online presence. However, the COVID-19 pandemic has changed the way people shop. Everyone was locked in their homes.

All non-essential stores were closed, and essential stores were falling short of staff to meet consumer demands. Both retailers and consumers switched to online shopping amid the lockdown.

The coronavirus outbreak acts as a growth catalyst for Shopify

Amazon and Shopify are at the top of the pandemic-driven e-commerce wave. Amazon has invested its entire first-quarter operating profit of US$4 billion on COVID-19-related expenses.

Shopify is investing in new services such as curbside pickup, same-day deliveries, and selling through social media sites like **Facebook** and Instagram. It has also added features like abandoned cart recovery and cash management operations.

A perfect growth environment for a software-as-a-service (SaaS) company like Shopify is when more customers, especially large enterprises, subscribe to its premium plans for a longer term. Also, fewer customers cancel or downgrade their plans.

These parameters increase a SaaS company’s recurring revenue and reduce their costs. The COVID-19 catalyst saw brands like **Heinz** and **Loblaw** subscribe to Shopify’s premium plans for a longer-term. These large enterprise wins will accelerate Shopify’s revenue growth, and its investment in its e-commerce ecosystem will help it retain these merchants.

As e-commerce growth is accelerating in the pandemic, Amazon’s and Shopify’s revenue is growing exponentially. Higher revenue saw their stocks surge more than 55% and 175% in the last three months.

The second quarter will be the best quarter for Shopify

Shopify will most likely report one of the most robust revenue growth in its second-quarter earnings. Its CTO Jean-Michel Lemieux stated that the company was seeing “Black Friday-level traffic every day” in April. In the last four years, its fourth-quarter revenue has increased 30% sequentially. Shopify’s revenue could increase by 30% sequentially and 70% year-over-year to US$611 million in the second quarter.

At present, Shopify stock is trading at 96 times its sales per share at writing. As sales increase rapidly, its valuation will normalize over the years. The stock will likely see some pullback before the earnings. That will give you a buying opportunity as the stock has the potential to rise to $1,700.

However, there is also a risk of decline as the share has grown to unprecedented levels, which are difficult to justify with current fundamentals. Only buy Shopify if you are willing to take the risk of a decline.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

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