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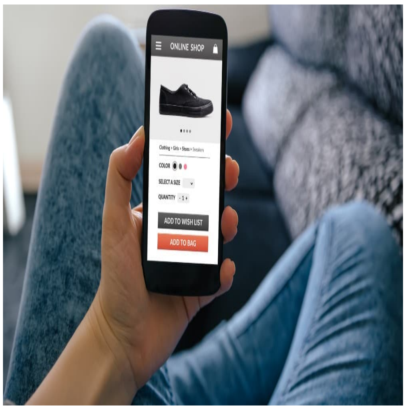

Shopify (TSX:SHOP) Stock: How Much Higher Can it Go?

Description

It’s hard to predict how much higher the **Shopify** (TSX:SHOP)(NYSE:SHOP) stock can go these days, even for the company’s biggest bulls.

During the past month, Shopify stock has soared 40% adding to an explosive 165% rally this year. The recent move has exceeded the Street’s highest target of $1,000 a share by **RBC’s Capital Markets** analyst, Mark Mahaney.

Shopify stock closed yesterday at $1358.16 with a market capitalization of $164 billion, making it the most valuable company in Canada. How far can this move go, and is this the right to buy Shopify stock ?

Before we try to address this question, let’s try to find out why investors are so bullish about Shopify stock. The biggest reason pushing Shopify higher is that the COVID-19 pandemic has accelerated the consumer shift to e-commerce.

Mahaney wrote in his recent report about the stock that the pandemic “has pulled forward e-commerce adoption” and expanded the company’s total addressable market. He added that Shopify can achieve operating margins in excess of 20% in the long run and $25 billion in annual sales by 2028.

Shopify’s growing partnerships

In addition to positive demand trends, recent gains have also come after Shopify announced some lucrative partnerships with some of the largest U.S. companies to expand its reach.

Last month, **Walmart** said that it has partnered with Shopify to expand its third-party marketplace site. The world’s largest retailer aims to add 1,200 Shopify sellers this year. For Shopify, the deal provides its network of millions of merchants access to Walmart’s customers.

Before this deal, **Facebook** allowed the company's retailers to import their product catalogs to the social media giant's new Shops service.

Shopify stock's surge this year has justified my March 31st call to buy this stock. The company is certainly on the right track to fuel its growth by taking advantage of this accelerated shift to e-commerce following the pandemic.

The next big catalyst to further fuel this rally will be the earnings report for the second quarter, which will be announced on July 29. Analysts, on average, are expecting a 38% jump in sales to around $500 million.

That said, there are also signs that the rally in Shopify's stock has gone a little far since my last call, and it's the time to trim the position, especially when the economy is coming under severe pressure, and both small and large businesses are getting a big hit.

Consumer discretionary products, sold by many of Shopify's merchants, are among the hardest hit in this downturn. Shopify, in its last earnings report, said that the gross merchandise volume through its point-of-sale channel fell 71% between March 31 and April 24, as stores shut down through the pandemic. Companies also downgraded from the Shopify Plus plan to cheaper-priced options.

Bottom line

Shopify stock's meteoric jump this year has been backed by earnings momentum and the company's potential for future growth. After the coronavirus-induced recession, however, investors should expect a short-term pause in this journey. If you hold Shopify stock, it's a good time to take some risk off the table.

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