Do You Ever Wonder How Big Your Fortune Would Be if Shopify (TSX:SHOP) Keeps Growing at the Same Pace?

Description

Tech stocks generally grow at an above-average pace, driven by their superior financial growth. **Shopify** (TSX:SHOP)(NYSE:SHOP) stands notably tall among them. The stock managed to grow 160% this year and became the country's biggest company by market cap. It has been a solid wealth creator for its shareholders in the last few years.

Shopify: Top TSX tech stock

Since its IPO in May 2015, Shopify stock has returned a remarkable $4,140% — a feat very few growth stocks have ever managed. That simply means an investment of just $25,000 five years ago would have made you a millionaire today.

In the same period, a $25,000 in Canadian broader market portfolio would have become only $26,300.

What if Shopify continues to grow at the same pace for the next few years?

Just for the sake of calculation, if that really happens, and an investor continues to hold it for the next five years, the fortune would be as big as $36 million.

However, it would not be fair to anticipate the same growth from the company throughout its life cycle. Tech companies generally grow at a rapid pace in their early years before they slow down a little. Shopify is no different. Its growth rate will also likely fall as it reaches maturity in the next few years.

What's in store for the next five years?

In fact, the tech titan has already started showing signs of slowing growth. In 2016, it reported revenue growth of 90% compared to a prior year. The top-line growth has dropped consistently since then. In 2019, its year-over-year revenue growth was 47%. While that's still remarkable growth, it also indicates a steep fall from 2016 levels.

Shopify's bottom line has also been quite volatile in all these years. Its 2019 profits fell 13% compared to a year earlier.

Interestingly, that does not mean Shopify is not a worthy investment. It is a great company backed by an innovative business model in one of the fastest-growing industries. The growth prospects remain high, but it might not grow at the same pace.

Attractive growth prospects

Changing consumer behaviour — switching from brick-and-mortar stores to online shopping — could continue to benefit Shopify. Moreover, lockdowns amid the pandemic have emphasized the importance of digital presence for businesses even more.

Thus, Shopify experienced a massive traffic surge from small- and medium-scale businesses in March and April 2020. That's why it delivered better-than-expected earnings in the first quarter. Its second-quarter earnings, which will be released later this month, will be interesting to watch and could drive the stock in the short term.

Despite its strong growth prospects, however, Shopify is still less likely to grow at its historic pace as the first-mover benefit wanes. E-commerce is not a high-barrier industry to enter, and the competition over market share will become harsher in the years to come.

It is already trading at a price-to-sales valuation multiple of 50 times based on 2020 estimates and looks expensive. Thus, rising competition and lowering growth should get reflected in its stock in the intermediate to long term.

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Date
2025/09/16
Date Created
2020/07/15
Author
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