



ALERT: Is Shopify (TSX:SHOP) Stock a Buy at \$1,255?

Description

Did you notice? **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)), the hottest stock of the **Toronto** and **New York Stock Exchange**, dipped 11%, or \$157, in the last one week. There are many theories on why the stock dipped.

Some analysts say that investors are becoming uncomfortable with Shopify's skyrocketing valuation of 90 times its sales per share. **Jefferies Financial Group** global equity strategist Sean Darby compared the current market conditions to the 2000 tech bubble and anticipated a tech stocks sell-off after the four-month rally.

I believe that Shopify stock is falling just because investors are cashing out some profits before the second-quarter earnings. Shopify is not in a tech bubble, as its growth prospects continue to remain strong.

Shopify stock's momentum

In the last seven days, the tech-heavy **NASDAQ Composite Index** fell 1.4%. Tech stalwarts like **Google** and **Amazon** fell 2% and 6.8%, while virus stocks like **Zoom Video Communications** and Shopify fell over 10%. But this decline doesn't imply a sell-off. The two virus stocks saw some correction in early June only to rise over 25% and 40% in the next 30 days.

This is a perfect opportunity for you to buy Shopify and rake in some double-digit growth in the short-term. The stock's **Relative Strength Index** (RSI) has declined from the overbought territory (of above 70) to normal trading (of 50).

Previously, [I discussed](#) that there are more buyers than sellers for Shopify, because of which buyers are paying a hefty premium of around \$100 to buy the stock.

In the last week, more sellers have emerged and the trading volume has increased. If Shopify stock repeats the June trend, it could fall for two weeks and rise high-single-digit on any positive news. You could see some stock rally ahead of its second-quarter earnings release on July 29.

If you buy the stock at around \$1,200-\$1,255 price range, you will gain when the stock is once again overbought. But such high gains come with the risk that the stock does not recover to the \$1,300 range. To understand what is at stake, I have put forth the bull and the bear scenario for the stock.

The bull scenario for Shopify

Shopify has emerged as the e-commerce platform of choice for both American and Canadian retailers. American brands like **Walmart** and **Chipotle Mexican Grill** have partnered with Shopify. A large enterprise customer brings premium longer-term subscriptions and high transaction volumes, which significantly boosts Shopify's revenue. The broader reach of the Shopify platform in the COVID-19 pandemic will accelerate its slowing revenue growth rate.

The Canadian government has also [partnered](#) with the e-commerce platform to execute the "Go Digital Canada" program. Under the program, Shopify will provide small merchants a 90-day free trial to its platform, a tap and chip reader, and free access to its point-of-sale (POS) pro plan for physical retailers until October 31.

The program will not provide financial backing, but it will help Shopify reach out to a wide range of small businesses. The next challenge would be for the company to convert these free trials into paid customers.

Although investors have already priced in the next seven years sales, this may not be the end of Shopify's rally. If the company's revenue doubles in the second quarter, and it announces new enterprise customers, the stock could grow another double-digit.

The bear scenario for Shopify

While there are reasons to be bullish on Shopify, the truth is that the future is uncertain. The e-commerce wave has given rise to many competitors. Rival BigCommerce is preparing to launch its initial public offering (IPO) on the **NASDAQ** stock exchange.

The tech industry has seen new entrants beat the leaders in their own game. For instance, **Apple's** iPhone put **BlackBerry** out of the smartphone business. Tech stocks give you handsome returns for taking the risk of future uncertainty.

Foolish takeaway

At present, Shopify's bull case is stronger than the bear case. BigCommerce is not big enough to takeaway Shopify's glory anytime soon. If you buy the stock now and it rallies to a new high, you could gain around \$150-\$200 per stock.

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