



Shopify (TSX:SHOP) Just Corrected 11% — Should You Buy the Dip?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) shares fell into correction territory this week, as the broader tech industry took a long-overdue breather following its unprecedented rally out of those March lows.

As a company that's been experiencing strong pandemic tailwinds, Shopify stock has been leading the upward charge in recent months. But with a price-to-sales (P/S) multiple that flirted with 70 times, one had to think that the name would eventually give in the fundamental laws of gravity sooner or later.

That's a significant reason why I urged investors to [start taking some profits off the top of their biggest tech winners last week](#) and why nobody should be surprised at the recent bout of weakness suffered by the broader basket of tech stocks.

At this market juncture, the million-dollar question is whether the recent dip in Shopify is a buy or if investors would be better served by waiting for a better entry point. This piece will have a closer look at Shopify stock after its recent run-up and correction to determine if the risks are worth the rewards at this most critical market juncture.

Is the recent [pandemic](#)-driven e-commerce boost the start of a trend? Or merely a short-lived pull-forward that could follow a hangover? Is Shopify stock still too hot to handle at north of 60x sales? Or do the perfect storm of tailwinds, Shopify's growing moat, and exceptional management team justify the high price of admission into one of the hottest e-commerce kingpins out there?

Shopify stock goes from red-hot to white-hot

The COVID-19 pandemic has wreaked havoc on the world economy, hitting some sectors much harder than others, but also acting as a tailwind for a few select firms that were fortunate enough to be in the right place at the right time.

Shopify is one of the firms in the latter group. The company's invaluable e-commerce platforms suddenly became a lifeline for e-commerce newbies that needed to get up and running with a digital platform or run the risk of going insolvent amid the pandemic-induced shutdowns.

In a prior piece, when Shopify stock imploded alongside almost everything else, I pounded the table of Shopify while its shares were ridiculously expensive. The stock has since more than doubled, making the ridiculously expensive stock a profoundly expensive stock.

On its own, Shopify's traditional valuation metrics never really made much sense. The stock is growing too fast, and the tailwinds are mounting at an unprecedented rate. If you took a value investor's approach to evaluate the stock, you stayed on the sidelines all these years and left a tonne of profits on the table.

Today, the stock is expensive beyond belief. But when hasn't it been? I believe the brilliant founder and CEO Tobias Lütke has proven that he's a visionary leader that knows how to execute. His stewardship is worth a lofty premium. But just how much of a premium? It's hard to tell.

But one has to draw the line somewhere because even in the world of high-growth investing, paying up any price can lead one to be left holding the bag at the expense of profit-takers who are disciplined enough to scrape the froth off their winners every once in a while.

Is SHOP stock's valuation too expensive to buy this dip?

An 11% correction brings Shopify stock to around 63 times sales. That's still profoundly expensive! The 47% in year-over-year revenue growth in Q1 was stellar, and the recent merchant adds, I believe, could accelerate for the duration of this pandemic.

It's a sustainable bounce, not a mere pull-forward in my opinion. Merchants added amid the pandemic will be sticking around, likely for life. And they're going to spread the word to other tech-unsavvy retailers that have fallen under pressure lately.

However, for me, nothing big has changed about Shopify since my buy recommendation in the depths of the coronavirus crash — only the valuation and the stock price. As such, I'd personally risk missing out on further upside by waiting for a far better entry point below \$1,000.

But if you're keen on getting skin in the game now, buying this correction certainly isn't the worst idea in the world!

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