



Here's the Coronavirus Stock I'd Buy Right Now

Description

The coronavirus pandemic has changed the way people live. From shopping to payments to education to entertainment to work, everything has moved online. This has created a once in a lifetime opportunity for cloud companies that support these digital trends.

Software-as-a-service (SaaS) companies that promote remote living culture saw the next 10 years of growth this year alone. Names like **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)), **Wix.com**, and **Zoom Video Communications** have become the ultimate coronavirus stocks.

The three stocks rallied 150%-250% in the second quarter when the pandemic enforced a global lockdown. However, these stocks fell around 10% last week. **Jefferies Financial Group** global equity strategist Sean Darby believes that the lockdown has created a situation similar to the 2000 dot.com bubble, which can burst anytime.

But I believe that Shopify stock is not in a tech bubble, and the recent decline is just a correction that has created a buying opportunity.

Is the Shopify stock rally another dot.com bubble?

Sean Darby's comparison is pretty valid, as there are many similarities in the current market rally and the dot.com bubble (1995-2000). Back in the late 90s, the internet bubble formed as venture capitalists poured in tons of money in internet startups to find their next big buck.

As capital was easy and cheap, more and more startups emerged. In 1999, 295 of the 457 initial public offerings (IPOs) were of internet-based companies. Moreover, these startups shifted almost 90% of their budget on marketing and branding to stand out in the competition.

Investors overlooked the traditional valuations based on earnings and profits and priced the stocks for the next several years on the hopes that their business model will generate returns. While companies like **Amazon** and **eBay** succeeded in their business model, many companies failed.

When the market was at its peak in March 2000, leading tech companies like **Cisco** and Dell placed huge sell orders to cash in on the excess valuation. These sell orders created panic among investors, and within a year these companies lost 70%-80% of their valuation. Most companies took 20 years to reach their March 2000 price.

Coming back to the present, the market has poured in a lot of cash in SaaS companies over the last three months, thereby inflating their valuations. Shopify stock is priced for the next five years. Investors are paying \$1,260 per stock for a company that is yet to turn profitable.

All these signs indicate that Shopify is in a cloud bubble. Hence, when the stock fell 10% last week along with Zoom and Wix, Sean Darby warned that the bubble could burst anytime soon.

But I don't believe that we are in a tech bubble.

Shopify share still has upside potential

In the dot.com bubble, Amazon and eBay survived as they gained market share. Shopify has become the second-largest e-commerce platform after Amazon and has become the platform of choice of large enterprises and governments. The company is [making its platform sticky](#) by adding features and enhancing delivery, marketing, and payment solutions to help merchants sell more.

Shopify spends 30% of its revenue on sales and marketing and 22% on research and development. [Last year](#), it generated positive free cash flow of US\$4 million while its revenue grew 47%. This shows that its investments are generating revenue and cash flows.

As for its valuation, the stock is trading at 87 times its sales per share. Shopify's revenue has increased at a compound annual growth rate (CAGR) of 50% between 2015 and 2019. Investors have priced in the next five years of revenue CAGR of 40%. Its stock rally will end when the company shows signs of a slowdown in revenue growth, and there are no such signs at present.

On the technical front, the stock has normal trading volume. The only difference is investors are cashing out some of their profits. If there was a sell-off as Sean Darby anticipates, there would be a spike in the trading volume.

Buy Shopify stock right now

Shopify stock is seeing some correction. This is the right time to buy the stock as it could see another rally ahead of its second-quarter earnings due to release on July 29. The stock rose 20% and 12% a week before its previous two quarterly earnings. If this trend continues, by the end of July, you could earn around \$1,500 on a \$10,000 investment.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

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Date

2025/07/01

Date Created

2020/07/20

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