



## Could Shopify (TSX:SHOP) Become a Trillion-Dollar Company?

### Description

**Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) was one of the best-performing Canadian stocks during the COVID-19 pandemic. Closing at \$711 on February 20 — the start of the COVID-19 bear market — it had risen as high as \$1,412 by early July. That's a 99% gain.

Since then, the stock has shed some of its gains but remains way up for the year. Since the beginning of January, it's up 143%. That's a pretty big gain for just one year. And it follows a series of similar gains over the past five years. Since its IPO, SHOP has risen nearly 4,000%. If you'd invested \$10,000 in the stock at its IPO date and held to today, you'd have a nearly \$400,000 position now.

That's an incredible result. And it leads naturally to this question: how far can this go? If Shopify kept up its recent gains for just a few more years, it would become a trillion-dollar company — rivalling **Amazon** and dwarfing **Facebook**. That's an exciting prospect. But given that Shopify has only a tiny fraction of those companies' revenues and earnings, we have to ask whether it could really happen.

## How much further SHOP would have to rise to become a trillion-dollar company

As of this writing, SHOP had a \$150 billion market cap. \$1 trillion is 666% of \$150 billion. To grow from \$150 billion to \$1 trillion requires a 566% increase. As of this writing, SHOP was up 143% for 2020. For simplicity's sake, let's treat that as a full year's return, rather than the return for a little over half of the year. At a 143% annualized return, it would take only two-and-a-half years for a \$150 billion company to reach a \$1 trillion market cap.

## Could it actually happen?

It wouldn't take long for Shopify to reach a \$1 trillion market cap at recent rates of return. The question is whether the market will ever decide it's worth that much. While SHOP's stock price may be rising at 150-200% a year, its revenue is "only" growing at 47%.

I put "only" in scare quotes, because 47% is an excellent revenue growth rate. It's just way behind the movement in the stock price, suggesting a company that's getting more and more expensive relative to sales.

Currently, SHOP trades for [54 times forward sales](#) (using sales estimates for the next 12 months). That's unbelievably expensive, and while revenue could catch up with the stock price, it wouldn't at the rates we've been seeing recently.

## Foolish takeaway

It's entirely possible that Shopify could reach \$1 trillion eventually. It is, after all, one of the most hyped tech stocks in the world, considered by many to be "[the next Amazon](#)." It powers over a million online stores, including those of large corporate brands and celebrities.

There's nothing stopping Shopify from being as valuable as the largest FAANG companies. But it would be very surprising if its current CAGR returns continued into the future. We'd reach a situation where SHOP in three years was more valuable than Facebook today.

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2. Tech Stocks

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