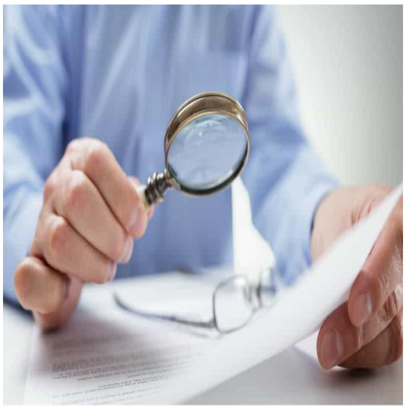

Will Shopify Report Loss in Q2 2020?

Description

The Canadian e-commerce company **Shopify** (TSX:SHOP)(NYSE:SHOP) will be releasing its second-quarter earnings report on July 29. In 2020 so far, its stock has risen by 148.4% as compared to a 5.2% drop in the **S&P/TSX Composite Index**.

The COVID-19-related closures started taking a toll on most of the businesses in March. Nonetheless, Shopify managed to double its quarterly earnings on a year-over-year (YoY) basis in the first quarter. This is one of the reasons why its stock is among the top three gainers of the TSX Composite benchmark in 2020. Let's find out what we can expect from the company's Q2 2020 results next week.

Estimates for Shopify's Q2 2020 earnings

In the second quarter, Wall Street analysts expect Shopify to report adjusted net loss of US$0.02 per share. This expectation is much worse as compared to its adjusted earnings per share of US$0.14 in the second quarter of 2019 and US$0.19 in the first quarter this year. Analysts project the company to report a 40% YoY rise in its total revenue to US$506.6 million — also higher as compared to US$470 million revenue in Q1.

In the first quarter, Shopify's subscription solutions sales rose by 34%, while its monthly recurring revenue registered a 25% YoY increase. An increased number of new merchants joining Shopify's to build or improve their online presence amid the pandemic drove its sales higher.

Rising expenses could hurt profitability

On the profitability side, Shopify's gross profit margin is expected to rise by 34% in Q2 to around US$275.1 million, with a projected gross margin of around 54.2%. In Q2 2019, it reported a gross profit margin of 57%.

Interestingly, the company's R&D expenses rose by more than 40% to about US$80 million in the first quarter. Analysts expect its quarterly R&D expenses to rise further to US$89 million in the second quarter. Overall, Wall Street expects higher administrative and operating expenses to hurt Shopify's bottom line in the second quarter.

Due to the ongoing macroeconomic uncertainties, Shopify hasn't provided any outlook for the second quarter. It also withdrew its fiscal year 2020 guidance in May.

Foolish takeaway

While analysts are expecting Shopify to report losses in the second quarter, I expect its earnings to be much better than their estimates. In the first quarter, the company's e-commerce platform already started attracting new entrepreneurs and merchants. I don't see any reason why this positive trend would discontinue in the second quarter amid coronavirus related restrictions across the globe.

Also, I wouldn't be surprised if Shopify's positive sales trend continues in the third quarter as the prolonged COVID-19 restrictions will attract more small- and medium-sized businesses towards e-commerce.

I find Wall Street analysts' estimates for Shopify's Q2 earnings to be very conservative (almost unrealistic). Currently, about 67% of the analysts covering the company are recommending a buy. However, I wouldn't rush to buy Shopify stock, even if it beats analysts' Q2 estimates. The stock is way overvalued right now, and it may see a downward correction towards $1,050 support level in the weeks ahead.

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