



Shopify (TSX:SHOP) Stock Price Is a Self-Fulfilling Prophecy

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) has had one of its best quarters in its history. Revenue during the past three months nearly doubled (up 97%) on the previous year. Meanwhile, the company reported a net income that surpassed analyst expectations. Unsurprisingly, Shopify stock is shooting upward and is currently trading at a jaw-dropping \$1,427 at writing.

If you bought the stock at the height of the pandemic-induced panic in late March, your capital has nearly tripled by now. The company is by far one of the biggest tech success stories this country has ever produced.

However, several investors and experts are now cautious about the stock's valuation. Investors seem so excited about Shopify's prospects that they may have already priced it to perfection. In other words, the stock could be overbought. However, an overpriced stock could actually drive the company forward.

Here's what Shopify's valuation looks like after this recent surge and why it's actually *a good thing* that the stock is trading at ludicrous multiples.

Shopify stock valuation

Analysts were expecting the company to report \$518 million in revenue this quarter. Instead, the team delivered \$714 million in revenue. That means the company's annual revenue could easily exceed \$2.5 billion this year. At its current market price, Shopify stock is trading at a price-to-forward-sales ratio of 67.2.

A P/S ratio of 60 is extremely high, even for a rapidly expanding tech company dominating a [multi-trillion dollar market](#). However, the Shopify team has been silently using this overvaluation to their advantage by raising capital. In other words, they're using Shopify stock as their currency.

Stock as a currency

In September last year, Shopify stock was trading at \$317 – a price that most analysts considered too high. The management team took this as an opportunity to issue new shares and raise \$700 million in cash.

Similar fundraising occurred in May of this year at \$700 per share. The team accumulated \$1.5 billion from that sale. Yesterday, the team announced its biggest cash grab yet. The team filed to raise a whopping \$7.5B in a mixed shelf offering. The offering lists class A shares, preferred shares, warrants, debt securities, subscription rights and units.

This looks like the team is cashing in on a once-in-a-generation opportunity to raise as much cash as possible. Shopify already has \$2.5 billion in net cash on its balance sheet. Adding another \$7.5 billion will take the total to \$10 billion.

That money could be spent to expand its fulfillment network across the world or buy a rival e-commerce giant to enter a new market. For context, Indian e-commerce giant Flipkart was acquired in 2018 for US\$16 billion (C\$21 billion). With \$10 billion in cash, Shopify could extend its competitive reach with a similar mega-deal.

Foolish takeaway

Shopify stock price is a self-fulfilling prophecy. Investors have pushed the stock's value to a record-high because they're excited about its growth.

Meanwhile, the team is using this excitement to actually drive growth. It's a virtuous cycle that could deliver a massive windfall for loyal shareholders over the long run.

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