



Why I'm Bullish on Shopify (TSX:SHOP)

Description

Many growth investors claim that investing in smaller companies will give you the best gains. While this may be true, there are certainly larger companies that can give you amazing gains. Even Shopify, which has [grown over 3400%](#) since its IPO can produce market-beating gains at its current \$150 billion market cap. Here are three reasons why I am still bullish on Shopify stock.

Recurring revenue

Shopify's business model is built on recurring revenue. The main source of this revenue comes from its subscription plans, which all stores are required to have. The company offers three primary [subscription tiers](#): Basic Shopify (\$29/month), Shopify (\$79/month), and Advanced Shopify (\$299/month).

Shopify also offers two additional subscriptions: Shopify Plus, which is an enterprise-grade solution for high volume merchants and large businesses, and Shopify Lite, which is meant for businesses looking to sell products on Facebook.

When it comes to the payment process, the company makes its revenue in two ways. First, Shopify charges merchant solution fees on every transaction done using Shopify payments.

On every transaction, the company charges 30 cents plus a pre-determined percentage of the total sale depending on which tier the merchant is subscribed to. Shopify also charges a fee to maintain the payment gateway used by its merchants.

Recurring payments are the most effective way for a business to continue growing its revenue year over year. As companies offer more products and solutions, and continue to grow its customer base, a similar growth should be observed in its revenue. That said, in the American market, big companies that also generate recurring revenue are **Apple**, **Microsoft**, and **Netflix**.

The company is founder-led

I have spoken on this previously, but founder-led companies generally outperform the market. At FoolFest 2020, Motley Fool U.S. analysts provided compelling evidence which supports this claim. From 2012 to 2018, Stock Advisor recommendations of founder-led companies saw an average increase of 195%, a more than threefold increase than the **S&P 500**, which saw a 61% increase over the same period.

It is also a great sign if the founders of the company hold a large ownership stake in the company. This would indicate to shareholders that the management is willing to be rewarded according to the company's performance. Tobi Lütke, founder and CEO of Shopify, currently owns 6.5% of the company.

Other examples of Canadian companies that are founder-led and have excellent insider ownership are **Docebo** (founder-CEO Claudio Erba owns 5.6% of the company) and **Lightspeed** (Dax Dasilva owns 15.8% of Lightspeed).

Shopify's moat is widening

Finally, the last reason I'm bullish on this company is because of its impressive moat. A moat is described as a competitive advantage over a company's competitors. A brief look at the company's financials would indicate that Shopify is currently unprofitable. However, the company's revenue is continuing to increase year over year.

The biggest reason for Shopify's continued net loss is because of management's decision to focus on growing the company. Tobi Lütke has previously stated that the most important thing for Shopify is to continue growing and gain market share in an important emerging industry.

As the company continues to scale, either geographically or by increasing its merchant offerings, competitors will have a difficult time keeping up.

Examples of successful companies which have well-established moats are **Amazon**, **Google**, and the Big Five Canadian banks (**Bank of Montreal**, **Bank of Nova Scotia**, **Canadian Imperial Bank of Commerce**, **Royal Bank of Canada**, **TD Bank**).

Foolish takeaway

Although Shopify has seen an incredible run in stock price over the past few years, the company is still in the early stages of its life. It has a very long growth runway ahead of it as a result of recurring payments, founder leadership, and a growing moat. Gong forward, I'm therefore still very bullish on this company.

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