



Shopify (TSX:SHOP) Is the Best Stock on the TSX Index

Description

Best in class is a phrase used to describe the [top-performing stock](#) of a particular sector, industry, or group. How about best of the best? A strong argument can be made that **Shopify** ([TSX:SHOP](#)) ([NYSE:SHOP](#)) is the top stock on the TSX Index. No company has such prolonged period of outperformance.

Since the company's IPO in 2015, there has been [no stopping](#) Canada's tech juggernaut. Shopify's stock price has returned 4,380% since its IPO, and despite calls to the contrary, it simply continues to defy expectations.

Before Tuesday's earnings, Shopify's price was up by 173% on the year. In fact, since March's lows through mid-July, Shopify accounted for more than 17% of total TSX Index returns.

Not surprisingly, investors were eagerly anticipating results. How did the company perform? Let's take a look.

The earnings report

Before the bell on Tuesday, the company reported financial results for the second quarter ending June 30, 2020:

Metric	Reported	Expected
Earnings per share	US\$1.05	US\$0.02
Revenue	US\$714.34 million	US\$511.85 million

Shopify put a stamp on its status as the best stock to own on the TSX Index. Earnings of US\$1.05 per share crushed estimates for EPS of US\$0.02 and revenue of US\$714.34 million beat by US\$202.78 million.

Not only did it beat average estimates, results came in well ahead of even the most bullish expectations — EPS of US\$0.27 and revenue of US\$608.32 million. Shopify beat the most bullish earnings and revenue estimates by 288% and 17.6%, respectively. Let that sink in for a moment.

Analysts (and the markets) continue to underestimate the company. Since it went public, it has only missed earnings estimates once. In most cases, the company has surpassed earnings and revenue estimates by double digits.

As per Amy Shapero, chief financial officer, “the strength of Shopify’s value proposition was on full display in our second quarter.” No question.

Shopify is one of several tech companies benefiting from the pandemic. Consumer habits are quickly shifting, and Shopify is ideally positioned to benefit. In the quarter, new stores grew by 71% and gross merchandise volume (GMV) grew by 119% over the second quarter of 2019.

Despite the strong headlines, there were a few hiccups. Case in point, the conversion rate of “stores created during the extended 90-day free trial are converting into paid subscribers at a slightly lower rate than merchant cohorts that joined Shopify prior to the pandemic.”

Likewise, GMV through point of sale (POS) declined by 29% over the second quarter of 2019. This is not all that surprising, as many retail stores had to suspend in-store operations during the pandemic.

Finally, the company exited the quarter in strong financial position with \$4 billion in liquidity.

The year ahead

Shopify stock can do no wrong, and investors are wondering just how high this stock can go. The truth is, the company is in blue-sky territory and considerable potential remains.

That being said, investors must temper their expectations. Shopify is unlikely to grow the top line by triple digits, and it also held off providing guidance. This means that there is still considerable uncertainty.

In terms of GMV through POS, June numbers were beginning to approach pre-pandemic levels and continued to improve in July. However, that can change in an instant if we see another wave of shutdowns.

The shift in customer behaviour is a consistent theme we’ve hear from several retailers. Count Shopify among those that are confident these new shopping patterns are here to stay.

Is Shopify stock a buy today?

At this point, a bet against Shopify's stock has proven unwise. The company continues to deliver and it is establishing itself as a dominant e-commerce solution. The markets embraced second-quarter results, sending its shares to 52-week highs post-earning before settling in at \$1,401.23 per share (+7.05%).

As of writing, Shopify's trading at 42 times forward sales. Although expensive, if the company continues to defy expectations, then there is no reason to believe the company won't continue its uptrend. Furthermore, estimates are likely to be revised upwards after this quarter, and valuations on a go-forward basis are likely inflated.

Bottom line: Shopify is the best stock on the TSX Index. It has been a top performer since it became a publicly traded company, and there are no signs of it slowing down.

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2. Tech Stocks

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