



Think Shopify (TSX:SHOP) Is Ridiculously Overvalued? It Just Proved Us Wrong

Description

Shopify's ([TSX:SHOP](#))([NYSE:SHOP](#)) stunning second-quarter performance yet again proves why you cannot put the right value to its stock. After its stellar run this year, many would have been thinking that Shopify stock is ridiculously overvalued and the run in its stock is over. However, its stock popped 7% on Wednesday after the company surpassed analysts' estimates by miles. Here's a sneak peek into how incredible its Q2 earnings were.

Explosive growth

Shopify crushed analysts' estimates as a surge in online activities in North America led the company to report phenomenal growth. Its adjusted earnings of \$1.05 per share came way ahead of analysts' expectations of \$0.01. Moreover, its revenues jumped 97% year over year to \$714.3 million and beat the consensus estimate of \$513.8 million by a wide margin.

The pandemic has accelerated the shift of commerce online, which in turn has led to a higher demand for Shopify's platform. The demand was so high that the new stores created on the Shopify's platform soared 71% sequentially. Moreover, its gross merchandise volumes (GMV) [surged 119%](#).

Back to valuation

Shopify's stellar financial performance makes it difficult to assign a value to its stock or benchmark it. In a lot of ways, Shopify is similar to **Amazon**. But benchmarking it against Amazon is not fair, as Amazon has no other parallel.

In my opinion, investors shouldn't focus much on Shopify's P/E or EV/sales ratio to judge its stock. Instead, investors should focus on its growth potential to decide whether investing in Shopify stock makes sense for them.

I would bet on Shopify's prospects, despite its higher valuation. Shopify stock has lots of room for further growth. The spending on online commerce is beginning to accelerate, and the trend is likely to

sustain even after the pandemic gets over. Multi-channel selling, digital commerce, and direct-to-consumer fulfillment are likely to be the new normal, which should benefit Shopify in a big way.

Shopify's introduction of **Facebook** and **Walmart** shops channel should drive the number of merchants enrolling on its platform. Meanwhile, its simplified merchant onboarding, automated order management, and growing fulfillment volumes indicate that Shopify remains well positioned to gain from the sizeable shift of businesses inline.

Bottom line

Shopify achieved the glory of [being Canada's biggest publicly traded company](#) and has demonstrated its ability to produce strong financials, even amid challenges.

Investors should note that the favourable industry trend should act as a long-term tailwind for Shopify and help it in gaining market share. Meanwhile, the expansion of its products and services, and the rapid adoption of its digital platform should continue to drive strong double-digit growth in its revenues and adjusted operating income. Also, the addition of high-margin products like Shopify Capital and Shipping augurs well for growth.

Primarily, if you are looking for growth and the potential Shopify has, you wouldn't hesitate to buy its stock, even at higher valuation multiples. Moreover, investors shouldn't be worried, even if the growth in GMV decelerates a bit in the third quarter, as it is likely to cool down after hitting a peak in May.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Tech Stocks

Date

2025/08/25

Date Created

2020/07/30

Author

snahata

default watermark

default watermark