Hesitant to Pull the Buy Trigger on Shopify (TSX:SHOP) Stock? Here's What to Do

Description

As was expected, **Shopify** (TSX:SHOP)(NYSE:SHOP) reported stellar Q2 earnings that crushed analysts' estimates as an increased number of small – and medium-sized businesses (SMBs) used its platform to go online amid the coronavirus pandemic. The demand was so high that its gross merchandise volume surged 119% year over year, while revenues jumped 97%. Furthermore, the new stores created on its platform rose 71% sequentially.

While COVID-19 did accelerate Shopify's growth in Q2, it has been performing exceptionally well even before the outbreak of the pandemic. Besides, the ascent of Shopify stock has been mind-boggling too. It touched a new high on the day of its Q2 earnings. Moreover, it has risen over 218% in one year, over 2,700% in five years, and over 4,000% since its 2015 initial public offering.

The astounding growth in Shopify stock could make you questio whether it's feasible to invest in it at the current levels. Its high valuation could make you skeptical. However, there are good reasons why you should lap up its stock and never sell despite the high valuation and the recent bull run.

Look at the growth, not valuation

There's no denying the fact that Shopify stock fails to attract on the valuation front. However, should that be a reason to worry? In my opinion, I am happy to pay a premium as long as the company is generating high growth. Similarly, for Shopify, investors should not judge its stock by its high valuation but by its growth.

Investors should note that Shopify's long-term tailwinds are likely to push its stock higher in the coming years. The spending on e-commerce has only just begun, and the favourable industry trend should create margin accretive growth opportunities for the company.

Shopify is second only to **Amazon** in the U.S. retail e-commerce market, and with rising e-commerce spending, one could discern that Shopify is likely to gain big from it and deliver solid gains.

Shopify's expansion of high-margin products and services, and partnerships with **Facebook**, **Walmart,** and **Pinterest** provide a strong underpinning for outsized growth. Its expansion of sales channels should bring more merchants to its platform and drive demand for margin accretive services like Shopify capital and shipping.

Overall, Shopify's ability to evolve and favourable industry trend implies that the company will continue to expand at a breakneck pace in the coming years and become the first Canadian company to reach a $200 billion valuation.

Don't worry about its historical losses

While Shopify reported higher earnings in Q2, the company has a history of making losses. Its losses increased every year, with $124.8 million in 2019, $64.6 million in 2018, and $40.0 million in 2017.

But should that be a concern? Remember the phase when Amazon was consistently making losses and asked its investors to show patience and have faith. Those who complied are reaping huge benefits. Similarly, Shopify's investments in growth and expansion are likely to weigh on its near-term financials. However, it is setting a stage for profitable growth in the future.

Bottom line

In my opinion, you shouldn't think twice before investing in Shopify stock at these levels as the company hasn't reached its peak and has explosive growth potential. Alternatively, you can wait for a small pullback in its stock before going long.

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