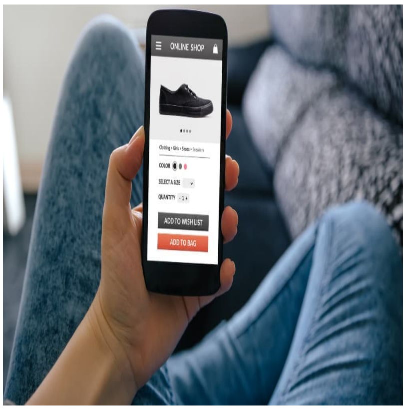

Why I Wouldn’t Buy Shopify Stock Despite its Impressive Q2 Results

Description

The Canadian e-commerce giant **Shopify** (TSX:SHOP)(NYSE:SHOP) recently released its second-quarter earnings on July 29. The event triggered a buying spree in its stock, as the company surprised everyone with a stunning adjusted earnings figure of US$1.05 per share. With this, Shopify crushed Bay Street’s earnings estimates of $0.01 per share. As a result, its stock settled with 7.1% gains on July 29.

In this article, we’ll take a deeper dive into Shopify’s latest earnings report and find out whether it’s a good time to buy its stock.

What’s driving Shopify’s massive revenue growth?

In the quarter ended June 2020, Shopify’s total revenue nearly doubled with a 97.3% increase on a year-over-year (YoY) basis. The company’s Q2 revenue stood at US$714.3 million — much higher as compared to its revenue of US$470 million in the previous quarter. Analysts were estimating its second-quarter revenue to be around US$513.2 million.

During the quarter, Shopify’s revenue from the subscription solutions segment rose by 28% YoY to US$196.4 million. More importantly, its merchant solutions revenue registered a solid 148% YoY increase to US$517.9 million. The company’s Q2 gross merchandise volume rose by 119% as compared to a year ago — driving its merchant solutions sales and overall revenue higher.

How COVID-19 is favouring Shopify’s business

On the one hand, the COVID-19 has devastated the growth of many industries; it has accelerated the growth in the e-commerce industry, on the other hand. In the second quarter, Shopify’s e-commerce platform registered 71% sequential growth in the new store creation. To attract more businesses to its e-commerce platform amid the pandemic, Shopify extended its free-trial period on its standard plans from 14 days to 90 days.

I believe Shopify won't be able to sustain these impressive new store creation growth figures in the coming quarters due to easing COVID-19-related restrictions. However, even if Shopify manages to retain a small percentage of these new merchants — that recently created new stores on its platform — it would be enough to boost its overall business growth in the near term.

Additional services to drive growth

In the last few years, Shopify has already beaten many of e-commerce giants in their own game. Nonetheless, it still needs to continue innovating to stay ahead of the competition. Recently, the company introduced the **Facebook** Shops channel to enhance Shopify merchants' selling experience on the social media platform.

Similarly, its new **Walmart** channel makes it easier for Shopify merchants to sell their products on Walmart.com.

Foolish takeaway

Apart from the positive factors discussed above, I find Shopify's spectacular profitability growth really attractive. In Q2 2020, the company reported an adjusted net profit margin of 18.1% — more than four times higher as compared to just 4.4% a year ago. However, we shouldn't forget that COVID-19-related tailwinds had a big contribution to Shopify's solid Q2 profit margins.

Shopify's stock has already risen 165.3% in 2020 so far as compared to a 5.2% drop in the S&P/TSX Composite Index.

While I don't see any reason to be negative on Shopify's stock at the moment, I would refrain from buying it right now, as it's soaring stock price might already have discounted all these positive factors. You don't want to buy Shopify stock now and hold it when the company would experience a decelerating sales growth rate as the pandemic subsides.

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