



Here's What to Do With Shopify (TSX:SHOP) Stock

Description

Shopify Inc ([TSX:SHOP](#))([NYSE:SHOP](#)) is a millionaire-maker stock. Since 2015, shares are up by nearly 4,000%. Over that period, the **S&P/TSX Composite Index** rose by just 10%.

But the company is decidedly different today. Its market cap swelled from \$4 billion to \$160 billion. The valuation is nearing 60 times sales, *triple* its five-year trailing average.

There's no doubt that this stock is special, but is it time to [harvest](#) the gains?

Another double is possible

To be clear, Shopify is still a fantastic company. Its primary advantage is that it uses a platform model. These models are capable of rapid growth that can persist longer than anyone thought possible. Platforms are often winner take all, so if the market is big enough, the opportunity is truly remarkable.

Just take a look at **Amazon** ([NASDAQ:AMZN](#)). The company is an aggregator and a platform. Anyone can build on top of Amazon, whether that means using AWS to launch a website, or creating a seller profile to begin transaction on the marketplace.

The more users Amazon has, the more value it provides. This is a key feature of platforms: they grow stronger as they scale.

Right now, 70% of U.S. internet users go to Amazon *first* when shopping online. The company nearly took the entire market! Investors believe Shopify can emulate this success. So far, that vision looks promising.

In some ways, Shopify is the secret Amazon. Rather than being an aggregator, the company allows anyone, anywhere to spin their own digital marketplace. Most of the time, buyers don't even realize that Shopify is involved. The company lurks in the shadows.

But this doesn't mean that Shopify isn't a platform business. Its seller back-end allows any developer to

enhance its capabilities. More users increases demand for more tools, which attracts more developers. That enhances the platform further, attracting even more users.

This is the same virtuous cycle that Amazon benefits from, and the opportunity set for both companies is well into the trillions of dollars.

Bet on Shopify stock?

Even the best stocks become overvalued. Shopify's growth will continue, but has the multiple overstretched itself?

Citigroup analyst Walter Pritchard notes that "top-line drivers and trends are undeniably attractive with shelter in place fueling e-commerce demand," but warns that the valuation "leaves little room for upside." He concludes that "valuation work suggests there may be too much in the stock."

Barclays analyst Deepak Mathivanan also [loves](#) the company, but "valuation keeps him from recommending the stock."

There's no doubt that Shopify stock is expensive. The stock trades at 60 times sales. Amazon only trades at five times sales. **Tesla** trades at 12 times sales. Even cybersecurity firm **CrowdStrike** trades at just 33 times sales.

Investing in Shopify today is a difficult choice. The business is growing like a weed, and likely will do so for another decade or more. But the valuation has clearly caught up to it.

If you're a long-term holder, the high premium is likely worth the cost of admission. But if you want to emulate the rapid gains of the past, you'll need to search for the *next* Shopify.

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