



Should You Buy Shopify (TSX:SHOP) Stock at \$1,430?

Description

Shopify's lofty valuation

Let's deduce Shopify's valuation five years from now. The stock is currently trading at 83 times its sales per share. That's quite a lofty valuation for a company that has barely managed to make profits. But the kind of business Shopify is into, it is

Founded in 2004, Shopify grew over the years. In 2019, it served 1.1 million merchants and helped them sell \$61 billion worth of products to about 300 million consumers. The company earns money through subscriptions and commission on transactions that take place on its platform.

It's gross merchandise volume (GMV) rose 118% to \$30.1 billion in the [second quarter](#). There were concerns that the e-commerce volume will fade as the economy re-opens. But the e-commerce has sustained its momentum even after the lockdown. Atlantic Equities expects Shopify's GMV to surge to \$100 billion in 2020.

Shopify's revenue has been increasing at a CAGR of 50% between 2014 and 2019. The pandemic accelerated e-commerce adoption, with Shopify's revenue up 98% year-over-year (YoY) in the second quarter. If Shopify can maintain its average annual growth rate at 50%, its revenue could surge 6.6x to \$16 billion by 2025. Shopify stock's 83x valuation is high even for this five-year sales prediction.

Shopify stock's upside potential

Malde noted that lofty valuation is a hurdle, but Shopify's product extension presents a significant upside potential. He pointed at [Shopify Fulfillment Network](#), a high-volume multi-warehouse fulfillment architecture that is scalable. The company will spend US\$1 billion on the fulfillment network. Like Amazon's warehouses, it will also have an end-to-end collaborative robot solution for warehouses.

The major difference between Amazon and Shopify fulfillment solutions is branding. Shopify has always adopted a merchant-first approach. Hence, its warehouse will allow merchants to keep their

branding on shipping labels, boxes, and paperwork, whereas Amazon uses its brand on boxes.

Fulfillment is a major pain point for many merchants. If Shopify succeeds in scaling its fulfillment network, it could make its platform sticky and significantly increase its GMV.

While Shopify is expanding its business, the e-commerce market itself is expected to grow at an average annual rate of 14.7% from 2020 to 2027, according to

Should you buy Shopify stock at \$1,430?

There is no doubt that Shopify has significant growth potential, although it is difficult to quantify its growth. The company is doing everything to pump its sales volume. However, it's not wise to buy the stock at 80 times its sales per share. Even if I take the most optimistic forecast, the stock can only sustain the \$1,400 price.

Investors have already priced in inflated revenue growth expectations into the stock. The problem with overvalued stocks is they become risky. They have limited upside potential, and any negative news can significantly pull down the stock price.

If you purchased Shopify stock at a price below \$1,000, it is worth holding on to. However, \$1,430 is not a buy point. Instead, buy a stock for which investors have not priced in its growth.

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