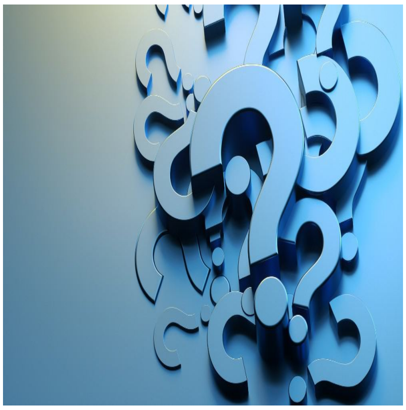

Is Shopify (TSX:SHOP) Stock Too Expensive Now?

Description

Online retailers are flocking to **Shopify** (TSX:SHOP)(NYSE:SHOP) in hordes in the wake of the COVID-19 crisis. If you want your small business to flourish, there's no other route but to set up your store on Shopify's e-commerce platform. The snowboard shop a decade ago is now the largest publicly listed company on the TSX.

As of August 28, 2020, the market capitalization of Shopify is $163.74 billion — $20 billion more than that of **Royal Bank of Canada**, the largest bank in Canada. The tech stock is also the hottest item on the stock market in 2020. However, if you're taking a position, the price might be too expensive today.

Phenomenal climb

Shopify raised $131 million when it went public on May 21, 2015. The initial target price range was $12-$14 until it settled at $17 per share due to the exceedingly high demand. Fast forward to August 28, 2020, and Shopify shares are trading at $1,362.43, which is a phenomenal climb of 7,914.3% from its IPO some four years ago.

The stock price fell below $500 for the first time in 2020 on March 16, 2020. A month later, Shopify was trading at $831.52 (+81%). The uptrend did not stop, and the stock posted a 52-week high of $1,472.98. Year to date, the gain is 164%. Had you invested $50,000 in year-end 2019, your money would be worth $131,941.70 at present.

Growth everywhere

How can you not like Shopify when growth is everywhere? In Q2 2020 (quarter ended 2020), total revenue increased by 97% to $714.3 million versus the comparable quarter in 2019. With more merchants coming on board, Subscription Solutions' revenue grew 28% to $196.4 million year over year.

Most notably, Merchant Solutions's revenue accelerated for the third straight quarter. The significant growth in gross merchandise value (GMV) drove revenue growth by 148% to $517.9 million. Shopify Shipping is also breaking ground with 49% of eligible users in Canada and the U.S. using the facility.

The latest partnership is with the government of Canada. The Go Digital Canada program was launched on July 15, 2020, to bring thousands of small Canadian businesses online and help them adapt to a digital economy. Its television network Shopify Studios is debuting in August as well.

Approaching break even

Some analysts contend that Shopify is a winner if investing were a popularity contest. Industry analysts say this provider of a cloud-based multi-channel commerce platform for small- and medium-sized businesses is nearing break even. The consensus is that the company will post its final loss in 2021.

The forecast is that Shopify will start reporting profits in 2022. The one thing going for the e-commerce firm is that it has no debt on the balance sheet. It’s rare to see a growth company with zero liabilities. Shopify is operating solely on equity investment.

Wait for a pullback

Shopify is a great growth story and homegrown success. However, it will be a loss-making company until 2021. According to analysts, the annual growth rate starting from 2020 should be 45% for the company to declare profits in 2022. If you ask if the price is high, it is. Perhaps you can wait for a pullback of 20-30% before you take a position.

CATEGORY

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2. Tech Stocks

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