



Better Growth Stock: WELL Health (TSX:WELL) or Shopify (SHOP)?

Description

Growth investors have had an interesting year. Technology stocks like **Shopify** ([TSX:SHOP](#)) ([NYSE:SHOP](#)) and **WELL Health Technologies** ([TSX:WELL](#)) have had incredible runs. Both have delivered multifold returns in just a few months. Now, if you're wondering which stock is a better pick for long-term growth, here's an overview.

Total addressable market

The key metric investors should watch with hyper-growth tech stocks is total addressable market (TAM). TAM offers a clue about how big a certain industry is, which helps us calculate how much room there is to grow over time.

WELL Health, for example, is trying to revolutionize healthcare by offering telehealth services and cloud computing for digital health records. Industry experts believe the telehealth market alone was worth US\$61.4 billion in 2019 and could be worth \$560 billion by 2027. That's an immense TAM for a company that is worth US\$666 *million* today.

However, Shopify's TAM is orders of magnitude larger. Global retail is a US\$26.7 *trillion* industry. Online shopping or e-commerce is worth US\$4-US\$5 trillion today. That makes it a much larger opportunity than telehealth. In fact, global retail is roughly double the size of the global healthcare industry (about US\$12 trillion).

So, Shopify has much more room to expand than WELL Health. Also, retail faces fewer regulatory hurdles and data security issues than telehealth, so Shopify should find it easier to grow over time. Shopify stock clearly wins on this front.

Valuations

For companies reinvesting all their earnings into long-term growth, a price-to-sales ratio is probably the best valuation yardstick

[WELL Health stock](#) currently trades at a P/S ratio of 22, while Shopify trades at a P/S ratio of 62.4. It's clear that Shopify is more richly valued than WELL Health. This shouldn't be surprising, since the average investor is more aware of Shopify and has probably never heard of WELL Health.

Since the telehealth space and WELL Health stock are flying under the radar of global investors, it seems like a better opportunity. In fact, WELL's smaller size makes it a potential acquisition target for larger firms. Meanwhile, very few companies can pay over \$130 billion to acquire Shopify right now. WELL Health wins this round.

Picking between valuation and market potential is tricky. For most investors, the choice boils down to a difference in investment style. However, there's no doubt that both these tech titans are Canada's finest growth companies.

Bottom line

The rise of Shopify and WELL Health is a testament to Canada's ability to generate innovation. Both companies are on the brink of major technological shifts in the global economy. Their potential is immense.

Growth investors should probably consider adding both stocks to their watch list or portfolio. However, if I had to pick one, I'd go with the smaller firm with the reasonable valuation: WELL Health. Since it isn't on everyone's radar, I believe the stock is more fairly priced right now. Also, its smaller size gives it more room to grow over time.

That's probably why I hold WELL Health stock in my portfolio.

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2. TSX:SHOP (Shopify Inc.)
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