



After the TSX Dip: Should You Buy Shopify (TSX:SHOP) At \$1,250?

Description

Back in July, when Shopify saw a correction, I was bullish on the stock and considered it to be [a good buy at \\$1,255](#). Even today, I am bullish on the stock at \$1,250. Your next question would be, what is the upside potential for this stock?

Shopify is a stock to buy and hold for the next 10 years

There is no doubt that Shopify has strong growth potential in the e-commerce wave. [Grand View Research](#) forecasts the global e-commerce market to rise at a compound annual growth rate (CAGR) of 14.7% in the 2020-2027 period. This growth will be driven by rising internet and smartphone penetration, higher disposable income, and growth in the middle-class population.

The COVID-19 pandemic has accelerated the adoption of e-commerce platforms even among the segments that were reluctant to adopt digitization. The biggest boom is of online grocery and food stores, where the transaction volume is high. Any company that facilitates e-commerce is growing significantly, and Shopify is at the center of this growth. It is still a new player and has a vast market share to capture.

The first glimpse of the pandemic demand was visible in Shopify's second-quarter revenue that surged 97% year-over-year. The revenue was driven by a 148% growth in merchant solutions. It earns a commission of around 1.4% on the Gross Merchandise Volume (GMV). The addition of grocers and many big food brands, and the rising traffic on its platform drove the GMV. Shopify is adding more merchant solutions like fulfillment network, pay later, and Shopify Pay that will increase its revenue per transaction.

The e-commerce business is volume-based. Hence, the correct way to value Shopify is through sales. The company has been growing its sales at a CAGR of 50%. The investors priced in this growth and the next 10 years growth, which increased its valuation to as much as 53 times its next 12 months sales. The recent correction has reduced its valuation to 39 times its next 12 months sales per share.

Shopify's long-term growth potential remains unchanged. But the stock price correction has opened a

good entry point to enjoy a long term rally.

Shopify stock's upside potential

The stock is trading at \$1,250. The holiday season is nearing, and Shopify is witnessing strong traffic during this time of the year. Its fourth-quarter sales generally rise by 30% sequentially. As investors price the stock on its sales growth, the stock could surge to the \$1,400 level, which represents an upside of 12% or even reach its all-time high of \$1,502, which represents an upside of 20%. This double-digit growth could come in the next three to four months.

When investing in high growth stocks like Shopify, consider buying them through your Tax-Free Savings Accounts (TFSA). The TFSA allows your money to grow tax-free. Moreover, when you withdraw your investment income, it is not included in your taxable income.

Investor corner

Back in July, I expected a \$150-\$200 upside per share, and the stock delivered the expected gains. If you invest your \$6,000 TFSA contribution in Shopify now, you can earn around \$1,200 in the best-case scenario and \$720 in the worst-case scenario by the end of the year.

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