



## Should You Buy Shopify (TSX:SHOP) Stock After it Just Fell 20%?

### Description

Canada's largest company in terms of market capitalization just shed 20% in the last week. **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock is trading at \$1,214, which means it is now valued at a market cap of \$146.38 billion. The recent sell-off in the tech sector has led to Shopify's lower valuation.

However, does this provide investors an opportunity to buy Shopify stock at a relative discount, or will the stock fall lower in the coming days? Investors remain worried about the rally in tech stocks that pushed them to record highs amid a macro environment that is sluggish, uncertain, and volatile.

### Shopify stock is up 129% in 2020

Despite the recent pullback in Shopify stock, it has generated market-beating gains of 129% year to date. The COVID-19 pandemic has driven several industries into a recession but acted as a tailwind for e-commerce companies, including Shopify.

E-commerce sales in the U.S. accounted for 11% of total retail sales, and this figure rose to 16% at the end of the June quarter. This meant Shopify's sales in Q2 were up 97% while gross merchandise volume (GMV) soared 119% year over year, as the company's merchant base increased by 72%.

There are several things going right for Shopify, a company that is focused on providing merchant-centric services. It clocked in US\$30 billion in GMV in Q2, which was 46% higher than [its previous record](#) set during the holiday season of 2019.

Shopify generates significant sales from its subscription services that are priced as low as US\$9 per month for new merchants and as high as US\$2,000 a month for large enterprises. The company confirmed that its high-end subscription plans now account for 24% of recurring sales.

Its stellar rise in revenue positively impacted profit margins in Q2. For example, Shopify's operating expenses in Q2 accounted for 37% of sales, compared with 56% of sales in the prior-year period.

The e-commerce behemoth ended the June quarter with a cash balance of US\$4 billion and no debt.

This allows the company to reinvest into its business or expand via acquisitions. We can see why investors have been bullish on the stock, and the company has not disappointed with its stellar growth.

## Valuation remains a concern

Shopify stock is valued at a forward price-to-sales multiple of 43, while its price-to-earnings multiple is close to 400. There is a good chance that [the stock will trade lower](#) if fears of a market crash come true. However, a recession-fueled bear market will provide investors an opportunity to buy a quality stock for a lower multiple.

If you were worried about Shopify's frothy valuation last week, the recent sell-off has provided an important buying opportunity. It is impossible to time the market, and if Shopify stock moves lower, you can double down on your investment and buy more of this stock.

In short, Shopify is a solid long-term buy given its secular growth trends, expanding addressable market, and rising profit margins.

### CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

### TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

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