



Shopify (TSX:SHOP) Stock: A Rising Star Destined to Fall?

Description

As one of the most prominent growth stocks in the **TSX** tech sector, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) always has investor attention. Its rapid growth had the potential to make people millionaires (if they bought and sold at the right time) and has come along farther in five years than most stocks do in decades.

And every time investors think that it's too overvalued and will finally be corrected, Shopify defies expectations and grows again. The current market crash is a prime example. The stock did fall with the rest of the market (though not as much), but it recovered and re-grew, at an unprecedented pace. It rose so rapidly that it even surpassed the king of TSX, that is, The **Royal Bank of Canada**, to become the most valuable stock for a while.

But will this growth last? Isn't Shopify too propped up on investor sentiment and too detached from its earnings and assets, that it can get brutally corrected any time?

An overvalued stock

Shopify is overvalued; there is no doubt about that. The forward price-to-earnings is currently 286.5 times, Enterprise value-to-sales is 51.8 times, and price-to-book is 24.1 times. This is too aggressive, even if you consider the other tech stocks that showed remarkable growth after the March crash. But the problem is that Shopify has been overvalued for a long time, and it didn't diminish its capital growth potential.

Whether it was the high demand of the e-commerce sector that drove that growth or purely investor sentiment, it is hard to say, but the fact remains that Shopify grew too fast too soon since the crash. We can draw some parallels between the original dot-com bubble and the recent growth spurt of Shopify (and many other tech stocks). And if the bubble is about to burst, then the recent dip might just be the tip of a sinking iceberg (or the Titanic).

An upcoming correction

The stock price has been experiencing a [sharp decline](#) since the start of this month. The stock fell over 14.5% in valuation in less than a week. In a reasonably-priced stock, that would've meant the decline of a few dollars in the share price. For Shopify, the price dropped by \$217. And Shopify isn't the only tech stock that's experiencing this fall.

It seems that, if a correction is due, it won't just be for Shopify, but the sector as a whole. However, being the most overvalued and expensive stock in the bunch, it can fall harder. But a correction doesn't mean that it's a fundamentally weak stock. Once it reaches (or near) its fair valuation, Shopify might become a [fantastic buy](#).

Foolish takeaway

Shopify is most likely, due for a correction, and investor pessimism that will kick in once the stock goes down even further may make things worse for the stock. It's destined to fall around its fair valuation, and it doesn't happen now; it will happen in the future. But the chances of it happening now are substantial since a falling tech sector might be enough to kick-start a second market crash.

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