



Revealed: Here's When I'd Buy Shopify (TSX:SHOP) Stock

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) is a killer e-commerce play that's put the Canadian tech scene (and the overlooked **TSX Index**) on the map. For many U.S. investors, the tech titan exploded onto the scene, outpacing among the best of what America's Silicon Valley has had to offer.

As Canada's most valuable company, many mutual funds have warmed up to the company, despite the excessively frothy, potentially bubbly valuation. Before the [September tech sell-off](#), Shopify's price-to-sales (P/S) multiple was north of the 60 mark, making it one of the most expensive stocks you're likely to come across. While the bulls would argue that the sky-high valuation justifies the profound pandemic tailwinds, the recent pick-up in growth, and future upselling opportunities, I think it's a dangerous proposition and wouldn't even to attempt to evaluate the company.

Yes, Shopify is tough to value given amid this pandemic given its reinvigorating growth that could continue accelerating through this unprecedented crisis. With a high bar that's been set by analysts, however, shares of the red-hot Shopify are at increased risk of a significant pullback that could hurt those who backed up the truck at the wrong time.

Shopify stock: Risk could be ahead, as tech stocks reverse momentum

As we delve deeper into this tech-led September pullback, there's a real chance that Shopify could surrender a considerable chunk of the gains posted since its March lows.

Yes, Shopify has never been anything short of absurdly expensive, but that doesn't mean you should pay Mr. Market whatever price he's asking for at any instance.

When Shopify was trading between 20 and 40 times revenues, an absurd valuation for even the growthiest cloud stock, I'd urged investors to back up the truck on Shopify, despite its "frothy" valuation, as I thought the pandemic tailwinds weren't fully factored into the share price. The stock then proceeded to more than triple in a matter of months, enriching many investors who stuck by the name

back when panic was driving the markets to unprecedented depths back in February and March.

Why not play with the house's money?

Given the likelihood that many of the hottest first-half winners have [overshot](#) their intrinsic value ranges back in July and August, I'd say it's only prudent to take your original principal off the table as you look to play with the house's money.

If you more than tripled up since my initial buy recommendation on Shopify stock, you can still take your principal off the table and make a killing if this tech-driven sell-off were to end tomorrow and Shopify stock were to make a move to \$2,000.

While the Shopify story has never been better, I believe the stock to be overvalued, even with the assumption that the company can continue blowing away the numbers amid this pandemic. Yes, Shopify will never be anything short of a pricey stock.

Still, I'm in the opinion that it's unwise to go against the grain right now given Mr. Market has gone against the first-half-of-the-year winners, the possibility that the analyst expectation bar may be set too high after Shopify's latest blowout quarter, and the potential for modest growth deceleration once this pandemic finally ends and its associated tailwinds abate.

The price I'd be willing to pay for Shopify stock: \$500

I'm a massive fan of Shopify's growth potential and still think it's in the early chapters of its growth story. Tobias Lütke is also an exceptional manager that's deserving of a "visionary founder" premium. That said, I think it's plausible that Shopify could suffer another one of its significant pullbacks over the near term.

If the selling picks up over the coming weeks and months, I'd be looking to scoop up shares of Shopify near their 52-week lows at around \$500, which is about 60% lower from today's levels.

Unless you're keen on getting a bit of skin in the game today, I'd urge investors to nibble very gradually on the way down. Personally, I'd much rather run the risk of missing out on momentum-driven upside by waiting for a more significant pullback. Sure, Shopify is flirting with a bear market, but considering the recent run, the latest September dip is nothing more than a blip.

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