Shopify (TSX:SHOP) Stock Falls 20% From its All-Time High: Time to Buy?

Description

The tech titan **Shopify** (TSX:SHOP)(NYSE:SHOP) stock has lost almost $55 billion of its market capitalization so far this month. Technology sector stocks in Canada as well as in the U.S. took a breather recently from their epic rally.

Interestingly, tech stocks, including Shopify, can fall more in the short term, given the magnitude of the recent rally. However, if you are thinking of selling Shopify stock because of its near-term weakness, you'll probably lose big in the long term.

Shopify stock has returned 3,760% since May 2015

Shopify stock has grown by 99% compounded annually in the last five years. To put that in perspective, the stock has returned 50% in 2018, 170% in 2019, and 130% so far in 2020. The scale and consistency of its rally have been extremely astounding.

Notably, it's not prudent to demand similar growth from it for the future as well. However, in a pessimistic outlook, even if Shopify's growth rate halves, it remains a very high-growth company and might continue to reward its shareholders. Given the growth prospects and its total addressable market, this seems quite doable.

Shopify is the second-largest e-commerce company worldwide only trailing **Amazon**. It serves more than one million businesses across 175 countries.

Huge growth prospects

The online store enabler has been fast adapting to the pandemic-dominated world. Its new product launches, which are expected to release later this year, stress Shopify's uncompromising growth plans. The lockdowns have notably boosted the need to grow online presence for small- and medium-scale merchants. Changing shopping trends driven by the pandemic will also keep on shifting a higher number of consumers to digital platforms.

It seemed like the high-growth e-commerce will attract competition, eventually diminishing Shopify's dominance in the industry. However, that seems unlikely, at least in the short to medium term, because of its unique set of competitive advantages. Shopify keeps the merchant identity intact, unlike Amazon. Shopify truly helps set up a digital store for merchants, keeping itself only in the background.

BigCommerce also doesn't seem to be a threat to Shopify at the moment. It is much smaller against Shopify in nearly every aspect from size to the number of merchants it serves.

Valuation concerns

Many naysayers will paint a gloomier picture for Shopify amid its recent weakness. I agree that the stock remains immensely expensive, and its valuation has been running well ahead of its financials for the last few years.

However, I think it is an opportune time for long-term investors, as its underlying growth potential justifies the premium valuation. Also, investors have hardly cared about its valuation in the last few years. What they value more is its ability to become the next Amazon.

To make it a safe bet, cautious investors can consider adding the stock in multiple slices. But investors should note that Shopify stock has not given many opportunities like this in its prolonged rally. After this brief weakness, it could be readying for even a bigger leap.

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