Is Shopify (TSX:SHOP) Stock a Buy Now?

Description

One of the big winners in the coronavirus economy has been e-commerce. This trend is probably not over, especially as younger people prefer to shop and browse online. Many companies are well positioned to take advantage of these changes in the way people buy. **Shopify** (TSX:SHOP)(NYSE:SHOP) is one of those companies benefitting from the shift to e-commerce. Shopify stock has soared by about 130% year to date.

Shopify is growing fast

Shopify's intuitive e-commerce platform makes it easy to build a web presence for merchants of different types and sizes. From online storefronts to order payment, fulfillment, and even shipping, the e-commerce platform provides invaluable assistance in almost every aspect of online business.

Shopify's huge customer base pays subscription fees for affordable plans. Most of these customers are small businesses, who likely will continue to transition to and stay on the web, as consumers move away from traditional physical stores that require face-to-face interactions.

Shopify is the second-largest e-commerce platform in North America after **Amazon**. Driven by the meteoric rise in its stock price, it is now the largest Canadian company in terms of market capitalization. Shopify is valued at a market cap of $150 billion, while Canada's second-largest company, **Royal Bank of Canada**, is valued at $138 billion.

The ongoing pandemic has accelerated the trend of e-commerce and changed purchasing habits, at least in the short term. Shopify's latest second quarter was its best second quarter since its IPO. Sales grew 97.3% year over year from US$470 million to US$713 million. Shopify's gross merchandise volume (GMV) climbed 119% to $30.1 billion, as the number of new stores on its platform increased 71% year over year in the June quarter. This helped make the company profitable, reporting US$36 million or US$0.29 per diluted share in profits compared to a net loss of $28.7 million, or US$0.26 per basic and diluted share in the same quarter last year.

Earnings are expected to grow at a rate of 62.5% on average per year over the next five years. This is much better than Amazon, whose earnings are expected to grow at a rate of “only” 39.4% on average annually in the next five years.

Is it time to buy Shopify stock?

Shopify’s leadership position in online retail, coupled with the overall growth in online sales, makes it a good choice for long-term investors.

Shopify stock recently hit record highs when its e-commerce partner **Walmart** introduced Walmart+. Shopify will likely benefit from this offer, as some of its merchants now list products on Walmart.com.

Since hitting an all-time high in early September, Shopify stock has lost almost 20% of its value at the time of writing. Still, it is trading at levels first seen at the end of June.

Despite this plunge, Shopify stock is expensive, as it trades at a P/S ratio of 53 and a forward P/E ratio of 400. I would wait for Shopify stock to become cheaper before buying shares. A bigger correction would give investors the opportunity to buy a quality stock at a lower valuation.

There are better opportunities in the tech sector now than Shopify stock.

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Date
2025/09/16
Date Created
2020/09/15
Author
sbchateauneuf