



Is Shopify (TSX:SHOP) Stock Still a Buy or Is it Overvalued?

Description

Israel recently announced another lockdown, as the second wave of the pandemic hit the country. Several countries in Europe also expect a second wave to hit the continent. The U.S. hasn't gotten over its first wave yet, which means people will continue to stay at home for the near term.

While countries might impose another round of lockdowns, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock might gain momentum to rise higher in the last quarter of 2020. The stock has zoomed from \$495 in March to almost \$1,230 today. This is after the stock corrected roughly 20% from its record high of \$1,502 earlier this month. The company's market cap is \$147 billion, up from \$43 billion in September 2019.

Shopify is [an e-commerce platform](#) that has been a lifeline to hundreds of merchants of different sizes and categories. It is capable of handling an online store end-to-end, from storefronts to shipping, depending on the subscription plan. Shopify operates in Canada, the U.S., the U.K., Australia, and other international markets with a major chunk of its revenues coming from the U.S.

For the second quarter ended June 30, 2020, Shopify's revenue rose 97% from Q2 2019 to \$714.3 million. Its subscription revenue rose 28% to \$196.4 million, while merchant solutions revenue, which includes payment, transaction fees, shipping services, and loans, was up 148% to \$517.9 million. This was a result of the 119% increase in GMV (gross merchandise volume) that stood at \$30.1 billion.

Shopify a boon for small merchants

According to [this survey by the U.S. Census Bureau](#), businesses have been impacted very negatively because of the pandemic, and around 45.3% of the small business surveyed have made the shift to online platforms.

In October 2019, Shopify had one million merchants on its platform. By the end of July 31, 2020, that number had grown to 1.3 million. There are still 36% of merchants in the U.S. who haven't transitioned online. If they want to survive, they will have to move online, and chances are a lot of them will end up on a Shopify platform. Around 30,300 of Shopify merchants had referred a potential client to the

company in the last 12 months. Expect all these numbers to go up if lockdown woes continue to haunt retailers.

Shopify's biggest advantage is that it can help smaller businesses quickly scale up and build their online business. This is the main reason why Shopify is more valuable than older players in the market like **Etsy**, **eBay**, and **Target**. All Shopify has to do is to ensure that its clients keep using its platform, even after the pandemic passes. Once small merchants see that their customer base has increased exponentially by going online, it should be an easy sell to them.

The Foolish takeaway

When all the factors are taken into account, I think that there is still a lot of juice left in Shopify. Until there is a vaccine in sight, people are not going to be comfortable resuming their pre-pandemic lives shopping offline. Consumer habits have changed at breakneck speed. Shopify has helped merchants adapt to them very quickly.

While investors are concerned over Shopify's sky-high valuation, growth stocks tend to trade at a hefty premium. Every major dip in its stock price should be viewed as a buying opportunity for long-term investors.

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