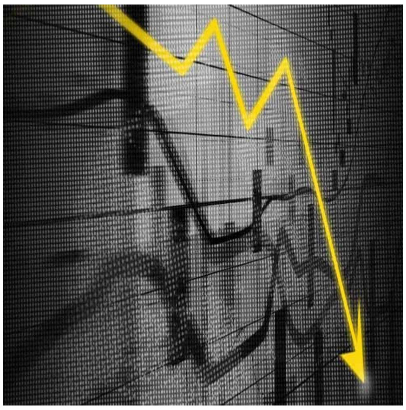

Shopify (TSX:SHOP) Stock: Will it Plummet Like U.S. Tech?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) has the distinction of being the only tech stock among the 10-largest securities (based on market cap) currently trading on the TSX. The difference between the total market capitalization of the second-largest tech stock, **Constellation Software**, is over $80.5 billion.

As the leader of the tech sector, September's tech sell-off (which was more pronounced in the U.S. than in Canada) caused Shopify to suffer the most significant drop in valuation.

When the stock took off after the market crash, it grew rapidly, and in a matter of months, it was trading in four digits instead of three. At its peak (on September 1), the stock was trading at $1,487 per share. Then it took a nose-dive, and it's currently trading at a price 17% lower than that. It's even harsher than the tech giants trading on NASDAQ.

We've yet to see how far Shopify stock will fall.

An overpriced stock

Shopify's recent trading momentum is heading toward oversold territory. The tech sell-off might've seemed like a re-incarnation of the dot-com bubble burst, which has the potential to spur investors into selling and realizing sold gains before the stock move towards a fair valuation. But the problem is that even the $250 drop in the share price isn't enough to drag the stock down to its fair valuation.

The company is still overvalued and currently trading at a highly inflated price-to-book ratio of 24.3 times. The forward price to earnings is also at 295 times. The problem isn't just the fact that the company is overvalued; it's how ridiculously overvalued it is.

While it's not a very accurate comparison, even if we compare Shopify to **Amazon**, it looks significantly more overvalued. And it's not just price to earnings and price to book; the price-to-sales ratio of Shopify is over 13 times more than that of Amazon. Even **Lightspeed**, a stock that rose even higher than Shopify after the market crash, has a price-to-sales ratio that's half of Shopify's. The company's current market capitalization is over 50 times its revenue (TTM).

An erratic variable

Despite all these fundamentals behind this overpriced stock, there is one thing that can't be quantified or predicted accurately: investor sentiment. People are willing to pay several times more than what the company is worth, because they believe that this e-commerce giant will keep on growing.

We can't deny that Shopify is in a desirable position in a marketplace that still has a lot of room to grow. But an overpriced tech giant whose sales may take years to catch up to its valuation is a risky bet. If history is any precedence, Shopify will rise again and keep growing, albeit at a slower pace. And people who take advantage of the current "discounted" price might benefit. But it can easily go the other way.

Foolish takeaway

The tech sector is in a precarious position. It was the hero of the last crash and might just become the villain that signals another market crash. If the sector as a whole falls, then Shopify's valuation might go down significantly more than it did the last crash. If it falls into triple digits, then it might take a while to grow beyond $1,000 this time, since people will be warier and might not initiate a buying frenzy.

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Date
2025/09/13
Date Created
2020/09/16
Author
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