Shopify (TSX:SHOP) Stock Dropped 20%: What's Next?

Description

The poster child of the COVID-19 pandemic just saw a huge correction. **Shopify** (TSX:SHOP)(NYSE:SHOP) stock fell 20% from its 52-week high in just two weeks. If you are worried that it is the end of the rally for the e-commerce phoenix, you should relax. There are many reasons for the dip, but the stock is still one digital beast you want to have in your portfolio for a long time.

Shopify stock just went on a selling spree and fell way below its 50-day moving average of $1,323. The stock is now oversold, which means it could see some buying this week. This selling has nothing to do with any changes in the company's future growth prospects the pandemic has provided.

What pulled Shopify's stock down 20%?

Shopify stock was stuck between the NASDAQ correction and a delay in the $2,000 Canada Emergency Response Benefit (CERB) payments, giving retail investors liquidity to buy the stock. The stock trades on both the **Toronto Stock Exchange** (TSX) and

Things started to pull up for the TSX in the second week of September, but Shopify stock fell as the company issued 1.1 million shares at US$900 each on NYSE. The stock was trading at US$930 on the NYSE before the secondary offering. The 3% discount on the secondary offering pulled down the stock price on NYSE to $901. This led to a decline in Shopify stock price on the Toronto Stock Exchange as well.

The additional issue will dilute shareholders' interest by less than 1%, but for a stock that is trading at 70 times its sales per share, each share counts. Now, this correction is temporary as investors are balancing the price difference. You should be focused on what lies ahead for Shopify.

What's next for Shopify?

Shopify has recently raised around US$1.8 billion from the secondary offering and convertible senior notes due 2025. It will use these proceeds to fund its growth strategies. Shopify's rival **Lightspeed POS** is also raising equity capital through a U.S. initial public offering (IPO) for similar reasons. I have two interpretations of their actions.

- First, Shopify and Lightspeed are leveraging the market bullishness and their sky-high stock prices to raise maximum equity capital.
- Second, they are accumulating cash to make aggressive acquisitions as they have been growing at a turbo speed since the pandemic.

Shopify is working on building its fulfillment network, just like **Amazon**. Shopify will use the chain of warehouses in its fulfillment network to store the products and execute orders faster and more efficiently. This would require capital. It might acquire a few smaller companies to materialize its e-commerce ecosystem.

When a company grows too fast, there is a risk of a slowdown in demand that would make all the investment a liability. But Shopify has strong demand. It has already crossed one million merchants last year, and more of these merchants (44% increase from last year) are making transactions of over $1 million on its platform.

Shopify's revenue has been growing at a compound annual growth rate (CAGR) of 50% in the last five years. The pandemic has just accelerated this growth. Grocers and food companies, which were reluctant to go online, are opening stores on the Shopify platform. These companies bring in high transaction volumes and huge traffic. Shopify's second-quarter revenue jumped 97% year-over-year, its highest since the fourth quarter of 2015.

If Shopify decides to make acquisitions, it would help the company grow faster. However, a

Investor corner

Shopify stock has the potential to reach its bullish analyst target of $1,400 towards the end of this year as the transitions to CERB alternatives smoothen and Canadians have more money to invest. The bullish price target represents a 17% upside.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred

5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Tech Stocks

Date
2025/07/03
Date Created
2020/09/21
Author
pujatayal