



Down 20% From Record Highs, Is Shopify (TSX:SHOP) Stock a Buy?

Description

Shares of Canada's e-commerce giant **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) have been on an absolute tear since it went public back in May 2015. The stock has returned over 5,500% since its IPO, which means early investors could turn a \$1,000 investment into a staggering \$56,000 over the years.

This stellar rise in Shopify's stock price has meant it is now Canada's largest company with a market cap of \$147 billion. However, the recent sell-off in equity markets this month has meant that the stock is also trading 20% below its record high. Let's see if this correction makes Shopify a good bet right now.

Shopify stock remains a solid long-term bet

Shopify is the poster child of the COVID-19 pandemic and has benefited by a change in consumer buying patterns. The pandemic has acted as a tailwind for e-commerce companies, as people had no option but to shop online as retail outlets were closed amid countrywide lockdowns.

According to a Statista report, e-commerce sales in Q2 accounted for 16.1% of total retail sales in the U.S., up from just 11.3% in the fourth quarter of 2019. Shopify sales in Q2 rose by a staggering 97% year over year, as the gross merchandise volume on its platform surged higher by 119%.

As the dreaded coronavirus decimated the traditional retail space, several [mom-and-pop stores](#) had no option but to move online. The number of merchants on the Shopify platform rose by 71% year over year in Q2. Shopify's intuitive digital storefront combined with its 90-day free trial offer also contributed to this influx in merchant growth.

The company's strong revenue growth also helped the company generate a Q2 net profit of US\$36 million, up from a net loss of US\$28 million in the prior-year period.

Analysts tracking Shopify expect the company's sales to grow by 65% year over year to US\$2.6 billion, while its earnings per share are expected to rise by a massive 717% in 2020.

We can see Shopify's forward price-to-sales multiple of 43 and its price-to-earnings multiple of 371 is supported by strong growth estimates.

The e-commerce giant should be bought on major price corrections

Shopify will continue to benefit from secular growth trends in the online segment, as the global e-commerce spending [is expected to double by 2027](#) to reach \$27 trillion in total value, according to a Grand View Research report.

Yes, there is no doubt that Shopify stock is trading at lofty valuations, despite a 20% decline in share prices. There is also a good chance for the stock to move lower if the market turns bearish in the last quarter of 2020.

However, it is impossible to time the market, and long-term investors need to view every major price correction as a buying opportunity. If Shopify stock moves lower, you can continue to buy shares at a lower multiple and average out your losses.

Shopify sales are expected to touch US\$18 billion by 2024, and if the stock is valued at 20 times sales, your investment can easily triple from current levels.

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1. Investing
2. Tech Stocks

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