



Shopify (TSX:SHOP) Stock Rallies Despite Data Breach

Description

Last week, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) rose 9%, despite news of a customer data breach. According to the *CBC*, employees stole 200 customer names and email addresses. The employees responsible were promptly fired, but security concerns remained.

Why SHOP is rallying

On the surface, it looks odd that SHOP would rally on news that its employees stole customer data. However, there are bigger factors at play that help to explain the rise.

Last week, SHOP rallied along with the broader tech sector. In the same period when SHOP rose 9%, the NASDAQ rose 2.8%. SHOP's gains were stronger than the NASDAQ's, but that's to be expected. SHOP is smaller than any of the FAANG stocks and has more room to grow.

Stocks in general tend to be correlated with each other. Stocks in the same sector are even more so. Many institutional investors use "sector-based" investing strategies, where they buy diversified baskets of stocks within a sector, rather than trying to pick individual winners. As a result, stocks in the same sector move together.

So, it looks like improving investor sentiment toward tech as a whole is a big part of SHOP's rally last week.

Another big factor is SHOP's [second-quarter earnings blowout](#). In Q2, SHOP grew its earnings at 97% year over year and posted positive GAAP earnings. The company actually benefited from the COVID-19 lockdowns, instead of losing from them. During the lockdowns, consumers flocked to e-commerce vendors, as brick-and-mortar retailers shut down. Shopify vendors — and Shopify itself — were among the biggest beneficiaries of this trend.

Shopify rallied after the news was released, suggesting that the sales boost was "priced in quickly." Now, however, investors may be expecting a similar boost in Q3. Recently, reports surfaced that many businesses are [shutting down permanently](#) because of COVID-19 damage. If that's the case, then

Shopify's second-quarter revenue bump could persist into the third — or beyond. We'll need to wait until November 3 to find out whether that will happen, so keep your eyes peeled.

Is the data breach a big concern?

As we saw above, Shopify is posting tremendous growth and getting rewarded for it in the market.

The question is whether the recent data breach puts all that in jeopardy.

We'll have to wait and see what the legal response — if any — will be. But at a glance, it looks like the answer is no. First, only 200 customers were impacted by the data breach, suggesting that the impact was minimal. Second, no actual financial losses were incurred because of the breach — the rogue employees did not get anyone's credit card data. Third and finally, Shopify acted swiftly to fire the employees involved.

All of the above shows that Shopify is a culture firmly committed to compliance, which bodes well if any legal action is taken against it. Make no mistake, SHOP has plenty of risk factors. A nosebleed valuation and possible revenue deceleration are just a couple. But it looks like last week's data breach isn't going to be the straw that breaks the camel's back.

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