Shopify (TSX:SHOP): Should You Pay 60x Sales for the Unstoppable e-Commerce Play?

Description

With the stock market at a critical crossroads, we're likely to continue seeing a split in the performance between COVID-resilient plays (some of which view the pandemic as a tailwind) and firms that have seen the COVID crisis decimate their businesses. Nobody knows what the second wave of COVID will due to these two baskets of stocks. Regardless, in the grander scheme of things that the following COVID-resilient plays may have overrun their intrinsic value ranges.

Yes, it's nice to have a pandemic-resilient play that will have your back in a worsening of this crisis. But one must never forget to consider the price they'll pay for the protection they'll receive. Overpaying for a safety play can be just as dangerous as reaching for the battered firms at ground zero of the COVID crisis.

Without further ado, consider taking profits in a hot name like **Shopify** (TSX:SHOP)(NYSE:SHOP), as the valuations, I believe, has been stretched in recent months.

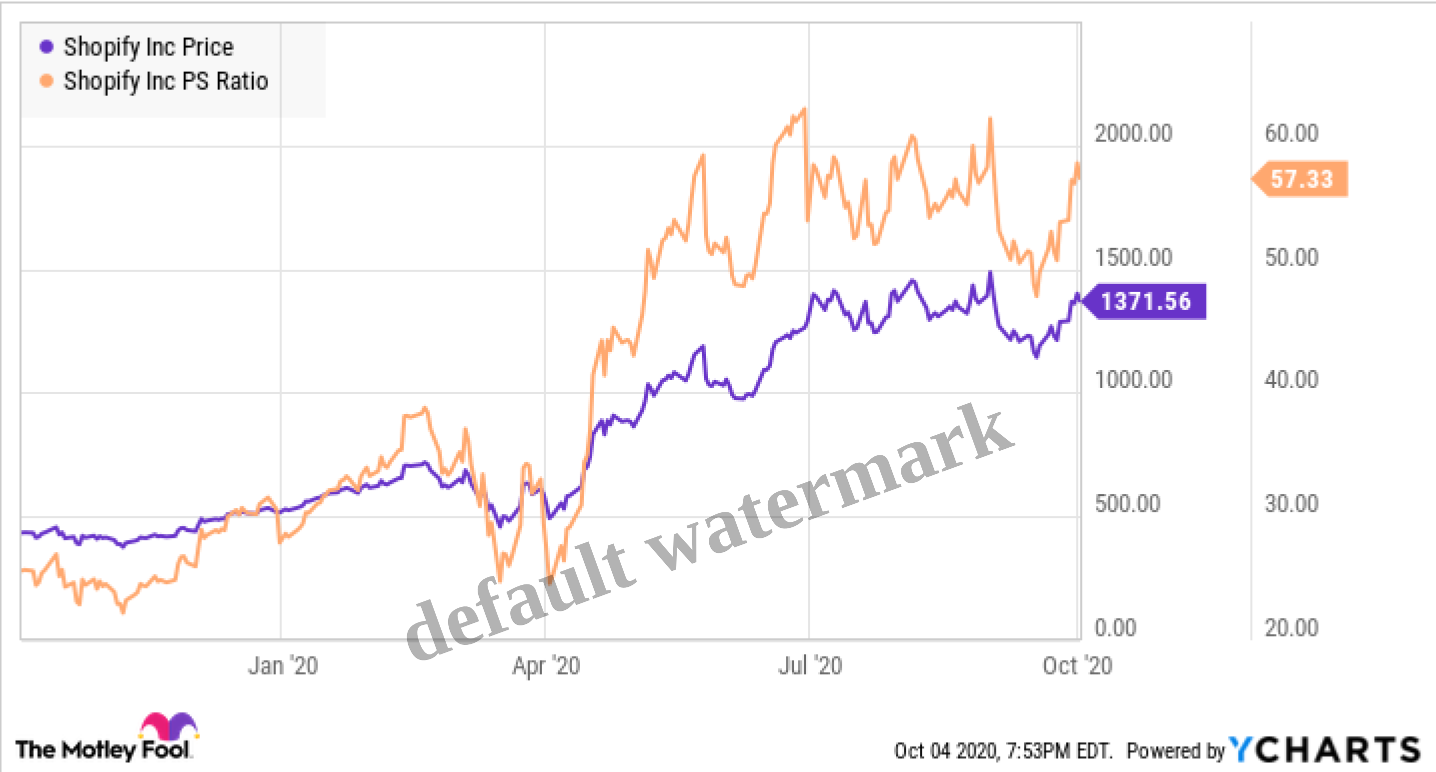
An incredible company deserves a premium, but how much of a premium?

Don't get me wrong; Shopify is an incredible company that deserves a massive premium multiple. That said, one has to draw the line *somewhere*. Sure, those hot shares of Shopify will always command a multiple that makes it profoundly overvalued if you're evaluating the company on a relative basis. Shopify is a best-in-breed e-commerce kingpin, after all.

With a history of big downs and ups, though, Shopify finds itself overdue for one of its steep plunges before it can sustain another leg up. Amid this pandemic, which has been a tailwind for Shopify, blowout quarters have become the new norm. While Shopify will continue to flex its muscles over the next year as demand for its offering continues to surge, the stock may become a victim of the firm's past success.

Shopify’s nosebleed-level valuation suggests nothing short of perfection is baked in

Today, Shopify sports a 60 times sales multiple, as a result of some serious multiple expansion since the pandemic started. If that’s not a nosebleed-level valuation, I don’t know what is.



With the recent bounce off its September lows, it appears that many investors are more than willing to pay 60, 70, maybe 100 times revenues for a company that has no real dents in its armour. If you can’t value the firm at these heights, it’d be wiser to wait for a pullback before getting in, as many speculators in this market seek to play the game of greater fools (that’s based on the greater Fool theory and no, it has absolutely nothing to do with us here at the Motley Fool!).

The game of greater fools will enrich many, but poorly timed new entrants into the name could be at risk of holding the bag. And if you’re one of many beginner investors looking to put new money into a hot stock, the last thing I want is for you to have to suffer from a bad case of indigestion while everyone else has been enjoying a feast of gains in recent months.

The Foolish takeaway on Shopify

I pounded the table on the stock back in the market depths of March and April, citing that Shopify would be a significant beneficiary of the pandemic. Since then, the long-term fundamentals, I believe, have been mostly unchanged.

While the Shopify story is real, unless you can justify paying 60x sales for the name with all the optimism and high expectations surrounding the name, I’d wait patiently for a more meaningful pullback.

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