



Shopify: Amazon 2.0 or Cult Stock?

Description

As far as Canadian technology stocks go, there is perhaps no more polarizing company than **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) with respect to the company's future outlook for bulls and bears. The exploding e-commerce demand has created a richly valued momentum play on growth.

Loading up on Shopify stock at these levels requires a high level of conviction. In the investment community today, it appears such a level of conviction exists. In this article, I'm going to discuss the [risk/reward profile of Shopify](#) through these two lenses.

The bull case

With ultra high-growth investments, analyzing the secular growth drivers underpinning the company's valuation is key. Understanding how e-commerce in general is likely to shape and fundamentally alter how business is conducted in the decades to come is important when looking at Shopify.

Shopify's platform has become the integral backbone of the e-commerce strategy of thousands of small and medium enterprises as well as mid- and large-cap companies globally. As businesses continue to shift a larger percentage of their sales online, the ability of Shopify to capture more value increases over time.

Shopify's high level of leverage to e-commerce has supported its growth through the largest pandemic in a century. The COVID-19 pandemic has accelerated the shift to e-commerce many businesses were putting off. This has resulted in even higher levels of growth than most investors or analysts expected, further stoking the company's share price.

Shopify's recently launched capital program has provided liquidity to its customer base. Various government programs have also supported SMEs and kept the party going.

As one of the largest technology employers in Canada, with a growing footprint globally, Shopify stands as a shining example of Canadian innovation in the technology space. This position as a job creator provides Shopify with political clout. I expect the Canadian government will do whatever it can

to support the successful growth of Shopify accordingly over the long term.

The bear case

The biggest gripe among those in the bearish camp is the company's valuation. Frankly, even some bulls are wary. Shopify is trading at a multiple which has hovered around 50 times sales. This puts Shopify in the discussion for one of the most expensive companies in the universe right now.

This valuation has remained far above any level fundamental investors could possibly consider for quite some time. This is true, even despite the absolutely astronomical "**Amazon-like**" growth rate the company has shown since its IPO.

The momentum trade into winners like Shopify has proven to be a good bet. Because of its status as the largest company in Canada by market capitalization, institutional money will continue to flow into Shopify.

That said, if economic conditions do turn wildly negative and a depression-like scenario takes hold with bankruptcies taking a wide swath of SMEs out of Shopify's customer pool, we could see growth slow.

Managing the risk/reward paradigm is difficult with any company, let alone a high flyer like Shopify; however, it is the foolish thing to assess the risk of any holding alongside its reward to generate a complete picture.

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