Shopify Stock (TSX:SHOP) Just Plunged 17% — Buy or Wait?

Description

Don't look now, but **Shopify** (TSX:SHOP)(NYSE:SHOP) stock's run came to a crashing halt this past week, with shares retreating just over 17% from its all-time highs and 14% in the past four trading sessions.

The Canadian e-commerce kingpin had a nosebleed valuation, with a price-to-sales multiple north of the 60 times mark, making it one of the most expensive stocks on the entire **TSX Index**. The frothy valuation and the risk that the firm would fail to pass a sky-high bar set in front of it led me to warn investors that the name was at high risk of suffering a vicious pullback.

Shopify stock: When perfection just isn't enough

In prior pieces, I noted that blowout quarters alone were likely not enough to keep the stock's momentum alive, given the profound magnitude of multiple expansion the firm had enjoyed in recent months. Many momentum chasers who paid up whatever price Mr. Market asked got dinged with a fast and furious correction last week.

With the broader markets on the retreat once again, I'd be willing to bet that shares of Shopify could continue to lead the charge lower and would encourage dip buyers to be cautious with the name, even after the latest blowout quarter, which, while applaud-worthy was still not enough to allow Shopify stock to rally in the face of tremendous weakness in the broader markets.

Shopify stock: The blowout quarter that didn't impress

Shopify had yet another terrific quarter that defied expectations. However, given how frothy the stock had become, the blowout third quarter failed to give a lift to the stock, as many investors came into the quarter with a magnifying glass on the hunt for any traces of hair.

I thought there was no hair on the quarter. Retail platform gross merchandise volumes (GMV) more than doubled on a year-over-year basis. Revenues and EPS numbers both exceeded analyst expectations, the former of which was around 20% better than what the consensus was calling for.

It was a truly magnificent quarter, and it's probably not the last, given the firm is poised to continue riding high on pandemic tailwinds as this crisis looks to worsen into year's end. Had it not been for Shopify stock's ridiculously high multiple, I would have pounded the table on the name after its post-earnings plunge, touting the post-earnings sell-off as unwarranted and the blowout results as coming for free.

A rough road ahead

With investors jittery over a lack of guidance and a broader market sell-off that hasn't spared the pandemic-resilient names, though, I'd much prefer to wait for a pullback below the $1,000 levels, as Shopify stock remains unfathomably expensive following last week's steep decline.

At the time of writing, SHOP shares trade at 46 times sales (comparable with over 60 times sales at peak levels), which is still a nosebleed-level valuation in my books.

With concerns growing about Shopify's ability to keep raising the bar on itself, I'd be unsurprised if the name gets slashed in half as Mr. Market looks to punish expensive tech stocks that have looked unstoppable in recent months.

Foolish takeaway on Shopify stock

While I am still bullish on Shopify's longer-term growth story, I continue to think the name is at risk to face "double damage" should this broader market pullback continue. As such, I'd encourage patient investors to wait for a more attractive entry point (20-30 times sales) before initiating a position that needs more than just perfection to sustain a rally higher.

Sure, a near-20% discount on a stock is compelling for dip buyers and value hunters. However, when you compare the dip to the profound rally out of those March depths, I'd say Shopify stock has barely "corrected," even though this latest dip more than meets the traditional definition of a correction.

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