Why Shopify (TSX:SHOP) Stock Fell 10% Last Month

Description

Shares of e-commerce company **Shopify** (TSX:SHOP) fell 10% in October to close trading at $1,228.2. Shopify stock in fact lost 10% in the last two trading sessions after investors were worried about a second coronavirus wave sweeping across North America and Europe. The threat of another round of economic lockdowns has sent the broader markets tumbling in the last week of October.

Shopify, in fact, crushed Wall Street estimates when it disclosed Q3 results on October 29. It reported sales of US$767.7 million and adjusted earnings of US$1.13 in the September quarter. Comparatively, analysts expected Shopify to report sales of US$663.4 million and earnings of US$0.53 in Q3.

Shopify's revenue almost doubled, while earnings soared 290% year over year in Q3. Despite its stellar performance, the e-commerce heavyweight did not provide guidance for the fourth quarter. The company's management said the demand for merchant and subscription solutions will depend on macro-economic conditions that include the extension of federal benefits, unemployment rates, and the duration of the COVID-19 pandemic.

Shopify stock remains a top pick for long-term investors

Shopify is Canada's largest company in terms of market cap with a valuation of $150 billion. The company has managed to beat analyst estimates in each of the last four quarters, as the COVID-19 pandemic has acted as a tailwind for e-commerce companies and accelerated the online shopping trend.

This meant Shopify has experienced explosive growth in the first nine months of 2020 as several merchants were forced to set up an online presence due to shutdowns. In Q3, the increase in Shopify's merchant base meant the company's gross merchandise volume rose by 109%, while subscription sales were up 48% compared to Q3 of 2019.

Shopify's CFO Amy Shapero said, "As our merchants adapted, we saw retail GMV recover and exceed pre-COVID levels in Q3. Retail merchants are increasingly adopting our all-new POS software and tap-and-ship hardware for a seamless omnichannel experience."

The long-term drivers for Shopify remain intact. Currently, e-commerce sales account for 16% of total retail sales in the U.S., up from just 11% at the end of 2019. This number will continue to surge higher, especially if COVID-19 restrictions are re-imposed on businesses.

What's next for investors?

While Shopify did not provide guidance for Q4, Wall Street expects company sales to grow by 68.4% year over year (YoY) to US$851 million in the December quarter. This will mean its sales will grow 74% YoY in 2020 to US$2.75 billion. Analysts also expect earnings in 2020 to rise by a staggering 770% to $2.61 per share, up from just $0.3 in 2019.

Shopify stock continues to trade at a premium valuation. It has a forward price-to-earnings multiple of 354 and a price-to-sales ratio of 41, making it one of the most expensive stocks on the TSX. However, we can see that its valuation is supported by stellar growth rates, secular tailwinds, and an expanding addressable market.

Analysts tracking Shopify stock have a 12-month average target price of US$1,123.1, which is 21% above its current trading price.

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