



Buy Alert: Shopify (TSX:SHOP) Stock Just Tanked 13.5%

Description

Shares of Canadian tech giant **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) lost over 13.5%, or US\$17 billion, in market value on November 9. While investors rejoiced the news of vaccine development by **Pfizer**, tech stocks underperformed the broader markets yesterday.

The Dow Jones Index and the S&P 500 rose by 3% and 1.2%, respectively, while the tech-heavy NASDAQ fell by 1.5% on November 9. Several other [e-commerce and digital payment companies](#) such as **Amazon**, **PayPal**, **Etsy**, and **Square** also fell by 5%, 8.9%, 17.2%, and 7.1%, respectively.

The COVID-19 pandemic has acted as a tailwind for Shopify and peers, as it accelerated the trend towards online shopping. This, in turn, increased demand for digital payment technologies. As the news of the vaccine drove stocks in beaten-down sectors higher, it resulted in a sell-off in the best-performing stocks of 2020.

Prior to the sell-off Shopify, Amazon, PayPal, Etsy, and Square were up 164%, 79%, 87%, 230%, and 217%, respectively, year to date. While investors would have booked profits in these high-growth tech companies, it should be noted that the migration towards online sales or digital transactions will not come to a halt after the pandemic subsides.

Shopify remains a top growth stock

Shopify will continue to benefit from long-term secular trends in the upcoming decade, and this sell-off should be [viewed as a buying opportunity](#). This stock is currently trading at \$1,173, which is 22% below its record high.

The company provides tools to merchants who want to set up an online presence. If you want to sell products online, Shopify will handle the technical side of your business, which means you do not have to spend a lot on IT infrastructure.

It also provides fulfillment and delivery services as well as a payments platform making end-to-end e-commerce transactions seamless and secure.

In the third quarter, Shopify reported gross merchandise volume (GMV) of US\$30.9 billion, a year-over-year growth of 109%, compared with US\$14.8 billion in the prior-year period. Shopify's GMV growth in Q1 stood at 46% and then accelerated to 118% in Q2 and continued its stellar run in the September quarter as well. The growth in GMV will continue in Q4, as the holiday season will drive demand in the coming weeks.

Key metrics for Shopify in Q3

Shopify's monthly recurring revenue was up 48% year over year and 30% sequentially at \$74.4 million. It also reported the highest-ever quarterly sales of US\$767 million in Q3, indicating year-over-year growth of 96%.

This, in turn, helped Shopify post a record operating income of US\$50.6 million, which almost tripled compared to Q2. In order to support its growth, Shopify raised US\$1.12 billion in equity capital and US\$920 million in debt. This meant it ended Q3 with a cash balance of US\$6.1 billion.

Shopify has helped several merchants on its platform with funding requirements. These merchants accessed US\$252 million in funding, which was 79% higher compared to the prior-year period, allowing them to get through uncertain times.

SHOP stock is trading at a discount

Despite the recent sell-off, Shopify stock has returned a stellar 5,200% for IPO investors in fewer than six years. It has a sky-high price-to-sales multiple of 38.6 and a price-to-earnings ratio of 245.

However, Wall Street remains bullish on this tech behemoth and has a 12-month price target of \$1,120, indicating an upside potential of 24% from current levels.

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