Shopify (TSX:SHOP) Falls Into a Bear Market: Should You Buy This Dip?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock imploded nearly 14% on Monday just below $1,200, as pandemic-resilient tech stocks folded in favour of their COVID-hit counterparts in what was a massive rotation. With Shopify stock now in bear market territory, with shares now down over 21% from their all-time highs, many investors wonder if the recent dip is a buying opportunity or if the e-commerce kingpin is due for another one of its vicious +50% meltdowns.

In many prior pieces, I've been ringing the alarm bell on shares of Shopify, noting that although the name had corrected (or fallen into a bear market) that the dip was pretty unremarkable (and very modest) compared to the magnitude of the massive run since March.

With Shopify stock tripling in a matter of months, there's no question that a 20% decline is just a small blip versus most other stocks out there. As such, dip buyers looking to initiate a position in the name would likely be better served by exhibiting patience, as Shopify could have much further to fall should the rotation out of pandemic winners be the main theme going into 2021 and beyond.

Shopify: Still an expensive stock after meeting the bear market

Even after the 21% drop, Shopify still trades at what I deem to be a nosebleed level valuation. The stock still trades at over 45 times sales (that's sales, not earnings) and is likely to take an amplified hit if we are due for a multi-month rotation out of resilient growth stocks that may see their pandemic tailwinds fade in late 2021.

Shopify is one of the firms that has proven to be a major beneficiary of the COVID-19 pandemic, as small- and medium-sized businesses (SMBs) have been rushing to the e-commerce platform to improve their chances of surviving the crisis. With a 90% effective coronavirus vaccine that could be available in early 2021, Shopify and other e-commerce plays could be in for a major deceleration in subscriber growth. Given Shopify stock's track record of taking massive breathers after big runs, I'd say that the risk of a vicious sell-off that could cut shares in half is high at this juncture.

Still a marvelous long-term bet

Now, I still think Shopify is in the early innings of its growth story. The SMB e-commerce market has still yet to be fully penetrated. With new products and offerings that'll be coming online, Shopify has a glorious upselling opportunity to boost its average revenues per user (APRU) over the coming years. So, the long-term story remains bright. In the meantime, I suspect most investors will be in shock over a potential post-pandemic "hangover" that the firm could be in for after delivering blowout quarter after blowout quarter.

If such a hangover were to cause Shopify to miss the mark, I think we could easily see Shopify fall to the $700 level. The high-momentum e-commerce stock tends to overextend to the downside as it does to the upside. And if shares were to retreat to around $700, I'd be willing to back up the truck on the name once all the speculators, momentum chasers, and unrealistic expectations are squeezed out of the stock.

Should you buy this dip if you're keen on Shopify over the long run?

I wouldn't, as I think the rotation out of pandemic-resilient growth has just begun. If the biggest winners of the first three quarters become the biggest losers in the final quarter, I wouldn't at all be surprised to see shares of Shopify get cut in half from peak to trough. If it does crash violently, you'll have a chance to pounce on an opportunity to get shares of the incredible growth story at 50% off.

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