



Why Shopify (TSX:SHOP) Stock Is Down 13%

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock is down 13% in the last month. But after its exceptional return in the last three years, shareholders are not complaining. In this article, we will look at the future of Shopify stock. We know it's a wonderful past. But what can we expect for the future?

Let's look at the reasons for Shopify's stock price action in the last month. This analysis starts with positive news on the coronavirus vaccine front. And it will help us form our opinion on the stock's future.

Shopify stock is down as a more broad-based rally takes hold

In the last month, we have seen a [growing optimism in the market in general, as vaccine news has spurred optimism](#). For example, oil and gas stocks have been on a tear. Investors are reacting to two things here. Firstly, they're reacting to the coronavirus vaccine news and the expectation that things can return to normal soon. Secondly, they're reacting to the [persistently low valuations for oil and gas stocks](#). These are valuations that, on a long-run basis, make absolutely no sense.

So, where does Shopify stock fit in? Well, Shopify stock has thrived in this crisis. It was one of the perfectly positioned stocks in this crisis. A sector rotation was due. Maybe Shopify will hold onto its gains, but upside from here appears to be limited.

For Shopify stock, it's all about valuation at the moment

Shopify's third-quarter earnings beat expectations recently. By a lot. This speaks to the company's ongoing momentum, as e-commerce continues to thrive. So, why is the stock down 13% in the last month?

The simple answer is valuation. The stock market trades on expectations. Shopify stock is factoring in really bullish expectations. It is a stock that is priced for perfection. And we know what happens to these types of stocks. Their results are not measured by how much growth or profitability they posted. They are measured versus expectations. The expectations that are baked into Shopify's valuation are

extremely high.

As a indication of this, we can look at Shopify's price-to-sales multiple. At 46 times, this is a hefty multiple to pay for any stock. Shopify's revenue grew at 96% in the third quarter. Its price-to-earnings multiple is an even more lofty 350 times 2021 expected earnings. Shopify is seeing phenomenal growth. But again, if Shopify stock is factoring in unrealistically high growth, it will falter. There comes a point where it is too much.

This is what I feel is happening to Shopify. I know the company's history is very impressive. Its growth rates are phenomenal. But there comes a time when expectations and valuations get ahead of themselves. Shopify stock is an example of this.

Motley Fool: The bottom line

Shopify stock is down 13%, as it has taken a decidedly downward trend in the last month. This has come at a time when the market is rallying off of positive coronavirus vaccine news. We can now start to see an end to this crisis. In response, we are seeing a more broad-based market rally. We can look to other, less-expensive stocks to invest in at this point. Shopify stock's upside is limited by ultra-high expectations baked into the stock's valuation.

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Date

2025/09/15

Date Created

2020/11/19

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