



Shopify Stock: Is It Headed to \$1,500?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) has been one of the top stocks ever since it has been a publicly listed company. The Canadian tech giant has created massive wealth for investors and [has returned a staggering](#) 5,660% since its Initial Public Offering (IPO). A \$5,000 investment in Shopify IPO in early 2015 would therefore have returned close to \$290,000 today.

Its stellar rise in share prices has meant Shopify is now the largest Canadian company in terms of market cap. But past returns don't matter much to future investors. Is Shopify still a good bet at its current trading price? Let's take a look.

A growth forecast of 80% year over year in 2020

While the COVID-19 pandemic has decimated companies in the energy, retail, and airline sectors, it has served as a tailwind for e-commerce players. Both merchants and consumers had no option but to conduct transactions online as people were confined to their homes.

This meant the number of merchants increased at an exponential rate as did the number of online shoppers on the Shopify platform. Shopify sales almost doubled in the last two quarters, while gross merchandise volume soared by over 100%.

This also allowed Shopify to grow its bottom line at a robust pace in the first nine months of 2020. Analysts tracking Shopify expect the company sales to rise by 80.6% to US\$2.85 billion in 2020, while earnings are forecast to rise over 1,100% to US\$3.68.

In the third quarter, Shopify sales were up 96% year over year at US\$767.4 million, while its net earnings stood at \$191 million, compared with an earnings loss of \$73 million in the prior-year period.

Investment bank expects Shopify to increase sales by 300% by 2025

In the last 12 months, Shopify reported sales of US\$2.5 billion. According to Samad Samana, an analyst from Jeffries, Shopify sales might touch \$10 billion by 2025. Samana said, "While the pandemic is temporary, it has exacerbated structural issues for both online and offline merchants — the challenge of selling across multiple channels, the difficulty of logistics, the need to access capital, to name a few."

He added, "Shopify solves for many of these pain points, and we expect more merchants to embrace Shopify's platform."

Shopify is not just an e-commerce marketplace that allows buyers and sellers to meet. It is an online ecosystem that provides a platform for digital payments and provides small business loans as well. Further, the company has fulfillment centres that enable an integration of its supply chain [as well as monetizable services](#) such as digital marketing.

Valuation and more

Shopify stock is valued at a market cap of US\$119.5 billion, indicating a forward price to sales multiple of 42 and a price to earnings ratio of 290. While it's trading at an expensive valuation, Shopify has lost 15% since touching a record high in September 2020.

Analysts tracking the stock have a 12-month average price target of US\$1,123, which is 14.6% above its current trading price. The maximum price target is US\$1,400, which indicates an upside potential of almost 43% from current levels.

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