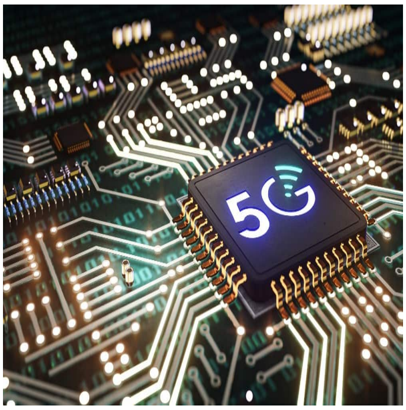

Shopify (TSX:SHOP) Stock Is Up an Insane 170% This Year

Description

The year 2020 has been a bad one for the stock markets around the world. The pandemic closed down economies and crashed stock markets almost everywhere. Some sectors were hit worse than others, while others fared relatively better. In Canada and the U.S., the tech sector managed to weather the worst of the pandemic without much damage.

In fact, tech stocks started to grow unnaturally fast after the pandemic. The growth spurt peaked in August and saw a sharp dip in September. It has normalized a bit since then. Companies associated with e-commerce saw more growth and activity compared to others because the pandemic has served as a catalyst for the growth of and the shift toward the e-commerce industry.

All of these factors expedited the pace of already rapidly growing **Shopify** (TSX:SHOP)(NYSE:SHOP).

Shopify's insane growth

Shopify stock grew an insane 170% from its start-of-the-year valuation. It went from trading near mid-three digits to almost $1,400 a share. Right now, only **Constellation Software** is trading at a higher price, and it's not nearly as expensive (in terms of valuation) as Shopify. The irony is that even before the crash, Shopify was considered too hot to touch.

Many investors assumed that the stock was too overpriced when it was trading at $500 a share. Now, it's trading at about three times the price. It's trading at an EV to sales of 48.9 times, price-to-book of 27.5 times, and the trailing price-to-earnings is 862.5. These metrics are practically through the roof, and its valuation is even higher than that.

Can Shopify sustain this growth?

The company managed to sustain its insane growth pace so far, so it might keep hovering around this valuation too. But the real question is, can it keep growing? The stock is dangerously overpriced, but the company is fundamentally strong. It has a powerful balance sheet. A huge cash pile that's more than six times larger than the company's total debt, and it's increasing its revenues at a rapid pace.

But the fact remains the same that the share price is too far detached from the underlying numbers. The sales and revenues would have to grow at an unnatural pace in order to catch up to the valuation of the company. Shopify has a strong position in the market, but with the e-commerce booming, the chances of other tech giants jumping in disrupting the market are pretty high.

If Shopify starts losing its customer base, the stock might not just grow stagnant but topple from its precarious peak.

Foolish takeaway

Shopify has always been an outstanding growth stock, and not just in the tech sector. But now, it might have grown too risky to buy. Also, its growth potential is stretched thin. It would have to grow to about $2,800 per share to double your money if you buy it now, which is highly unlikely.

The chances of this stock falling down to a three-digit price tag are higher than its breaking through the $2,000 per share threshold.

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