



Up 173% Since 2020, Is Shopify (TSX:SHOP) Stock Still a Buy?

Description

Technology stocks thrived amid the COVID-19 pandemic and ended 2020 at record highs. Companies in the e-commerce space, including **Amazon**, **Shopify** ([TSX:SHOP](#)) ([NYSE:SHOP](#)), **Etsy**, and **Chewy** have returned 70%, 173%, 278%, and 224%, respectively, since the start of 2020.

As people were forced to stay at home and shop online, e-commerce companies saw a steep rise in consumer demand all around the world. E-commerce sales in the U.S. in Q2 of 2020 accounted for 16% of total retail sales, compared with 11% at the end of 2019.

The shift to online shopping has accelerated the top-line growth of Shopify and peers, which also resulted in outsized gains for investors. However, Shopify has been on a tear ever since it went public in May 2015.

Since its IPO, Shopify stock has returned a staggering 4,100% and is now Canada's largest company in terms of market cap. So, a \$1,000 investment in Shopify IPO back in 2015 would have ballooned to \$42,000 today.

Shopify sales have risen 82% year over year

Shopify's revenue has increased by a stellar 82% year over year to \$1.95 billion in the first nine months of 2020. Its merchandise sales soared over 100% to \$1.32 billion in this period. The company continues to benefit from a network effect, as the number of merchants on the Shopify platform continues to rise, which then facilitates higher transaction volumes.

Shopify's GMV (gross merchandise volume) increased by 93.6% to \$78.4 billion, while its monthly recurring revenue was up 50% at \$74.4 million. The GMV details the total amount of products sold on Shopify's platform, while monthly recurring revenue measures the subscription revenue that is flowing into the company each month.

While Shopify's users pay a monthly subscription amount to use the robust platform, the company is now generating a majority of sales via the merchant solutions business vertical. In Q3, [merchant solutions sales](#)

were up 132% at \$522 million, accounting for 68% of total revenue.

Shopify has created an ecosystem that continues to expand, and the company should easily generate over \$100 billion in GMV in 2020. The company is also expanding its portfolio of merchant solutions and products, which will drive top-line growth higher and generate incremental sales over time.

Valuation and more

We can see why Shopify has been a top pick for many Canadian investors. It has multiple growth drivers and secular tailwinds that have already helped the stock crush broader market returns.

However, this has also meant Shopify stock is now trading [at a hefty premium](#). Shopify is trading at a forward price-to-2021-sales multiple of 34.7 and a price-to-earnings ratio of over 300.

The stock has recently lost momentum and is trading 15% below its record high. Analysts covering Shopify have a 12-month average target price of US\$1,128, which is 3.8% above the current trading price.

Though Shopify is trading at a sky-high multiple, it should continue to generate outsized gains for long-term investors. This suggests every price correction should be viewed as a buying opportunity in this e-commerce giant.

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