



3 Reasons Why Shopify (TSX:SHOP) Is a Top Buy in 2021

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) could very well be the most well-known Canadian stock today. [Since its Initial Public Offering \(IPO\)](#), the stock has gained more than 3500%! This averages out to an annual gain of about 93%. In comparison, the **TSX** has gained nearly 24% over the same period. There is no debate on which investment would have been the better decision over the past five years.

However, with a market cap of more than \$150 billion, Shopify is now the [largest company in Canada](#). Understandably, investors are asking whether the company is still a solid investment moving forward. I believe it is one of the best stocks to hold in 2021, and possibly over the next decade. In this article, I explain why Shopify is a top stock to buy in 2021.

e-commerce is gaining momentum

The global adoption of online sales has been long and steady. In 2000, internet sales accounted for 0.8% of all retail sales in the United States. By 2010, this figure had grown to 4.2%. This represents a very impressive annual growth rate of 42.5%. In 2020, the COVID-19 pandemic caused governments around the world to impose lockdowns, restricting in-store sales. This resulted in consumers having to turn to online merchants more than ever.

From Q1 to Q2 2020, online sales as a proportion of all retail sales in the United States jumped from 11.8% to 16.1%. This represents an annualized growth rate of 145.8%! Clearly, the industry has been accelerated by many years, as a result of the pandemic.

Now in 2021, it is safe to say that consumers have no intention of leaving online shopping in the past. In fact, Shopify reported that this past Black Friday-Cyber Monday weekend was the most successful in history. Over that weekend, Shopify merchants, alone, recorded \$5.1 billion in revenue. With further COVID-19 restrictions being imposed around the world, consumers may become even more accustomed to online shopping, which will reinforce behavioural decisions in the future.

Shopify has a very attractive business model

One of the attractive points regarding Shopify is that its platform is useful to all merchants regardless of size. From the first-time entrepreneur to a large cap corporation, all businesses have something to gain from using Shopify's platform. This gives the company a very large addressable market.

In terms of revenue, Shopify makes its money from very predictable sources. The majority of its revenue comes in the form of subscriptions. Merchants will pay a monthly fee, which increases based on the plan selected. As merchants find success with Shopify, they are incentivized to buy more expensive packages, which will allow Shopify to continue growing its revenue without requiring an ever-increasing customer base.

It should be noted that Shopify's reported recurring revenue is nearly as impressive as its stock performance. Since 2014, the company has never reported a decline in monthly recurring revenue. In Q2 2014, Shopify reported \$5.10 million in monthly recurring revenue. By Q2 2020, this figure had jumped to a staggering \$74.4 million. Clearly, the company has done an excellent job of attracting merchants over the years.

Its leadership team is world class

Finally, Shopify's leadership team should be commended. Its founder, Tobi Lütke, wrote the very first line of code in what would later become Shopify's platform. He remains very passionate about the company today and leads the way as its CEO.

It should be noted that Tobi asks his board every year whether they believe he is still the best person to lead Shopify. If it is ever decided that he is not, Tobi has stated that he will gladly step aside and allow a new CEO to take over, ensuring the company stays on track with its mission.

Foolish takeaway

Shopify is one of the most popular Canadian companies today, and possibly of all-time. Its stock has gained an incredible amount since its IPO. Among the plethora of reasons to invest in Shopify are the increasing momentum of e-commerce, an attractive business model, and an exceptional leadership team. The stock continues to be one of the best buys in 2021.

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Date

2025/08/17

Date Created

2021/01/12

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