



Why Shopify (TSX:SHOP) Stock Soared 166% in 2020

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) was one of Canada's biggest stock market winners in 2020. Starting the year at \$539, it ended it at \$1,437 — a 166% return.

It's always remarkable when a stock achieves such a strong annual return. What's even more remarkable is that SHOP was far from a small cap when the year got started. At the start of 2020, its market cap was \$70 billion. So, Shopify achieved its massive rally after already being a large company by Canadian standards.

The question is why this happened. Shopify was always a fast-growing company, but, until recently, its revenue growth had been decelerating. For this reason, SHOP's massive 2020 rally caught a lot of people off guard. The stock actually tanked in February and March, falling 36% after suspending its earnings guidance. Later, it rallied harder than ever.

SHOP's success in 2020 might seem surprising. But, in fact, it was very predictable. As I will argue in this article, it came down to two main factors.

Retail shut down

As a result of the COVID-19 pandemic, many [brick-and-mortar retailers](#) were forced to shut down. These included

- Clothing stores;
- Electronics stores;
- Specialty stores; and
- Pretty much anything else deemed "not essential."

With these stores closed, the demand for their products had to be met elsewhere. As it turns out, it was met by vendors on Shopify and **Amazon**. While businesses were physically shut down, they didn't necessarily go out of business. Rather, they turned to online sales. In many cases, they used Shopify stores to move products and process payments. And Shopify itself got a piece of the action.

Two massive earnings beats

As a result of the consumer rush to e-commerce stores, Shopify experienced two consecutive earnings beats:

- Q2: revenue up 97% and \$36 million in GAAP profits
- Q3: revenue up 96% and [\\$191 million in GAAP profits](#)

These were both excellent quarters. Not only did revenue nearly double in both, but the company scored two consecutive quarters of positive GAAP earnings. Until this year, GAAP profits had been a sore spot for Shopify. The company had posted many quarters of positive adjusted earnings, but GAAP profits were elusive. In 2020, thanks to the massive revenue boost, they were achieved. Now, investors are more confident in the stock than ever.

Foolish takeaway

When a stock rises 166% in one year, it's always a big deal.

For Shopify, it was a bigger deal than normal. The company was by no means small when 2020 got started, but it achieved the kind of return investors have come to expect from small-cap stocks. Ever since it has gone public, SHOP has been averaging compound annual growth rates in excess of 100%. If that continues, then we'll soon be looking at a trillion-dollar company. Who knows whether it will happen. One thing's for sure though: if it does, it will be a great day for the TSX index.

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Author

andrewbutton

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