



It's a Terrible Decision to Buy Shopify (TSX:SHOP) at \$1,500

Description

Are you surprised seeing the title? The entire stock market has been bullish on **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) for the last seven months. This company emerged to challenge the likes of **Amazon** in the e-commerce services for third-party sellers. Even now, when I say don't buy Shopify stock, it doesn't mean I am bearish on the stock. The company still has immense growth potential, but investor expectations are even higher. The company still needs time to fundamentally justify the \$1,500 stock price.

Long-term growth potential

Before the pandemic, Shopify's revenue growth rate decelerated from 95% to 47% between 2015 and 2019. But even a 47% growth rate is pretty high for a normal course of business. The stock surged 1,400% over these five years from \$34 to \$534.

The pandemic came as a blessing in disguise and gave a sudden boost to Shopify's platform. All merchants, big and small, opened their online store using the Shopify platform because of its ease of use. The platform expanded at a rapid speed in the last eight months.

Shopify introduced the "buy now pay later" option, shipping, business lending, and warehousing services to help merchants set up their stores. It also partnered with TikTok, **Facebook**, and **Walmart** to help merchants market their products and sell more goods. All these efforts doubled Shopify's gross merchandise volume (GMV) to over \$30 billion in the second and third quarter, surpassing **eBay's** \$25 billion GMV. Shopify's estimated U.S. e-commerce market share of 6% is only below Amazon's share of 37%.

Shopify set a new record for the 2020 Black Friday/Cyber Monday weekend sales that surged 76% year over year to [\\$5.1 billion](#). It surpassed sales of Amazon's third-party sellers by \$300 million. This figure shows that consumers and retailers are looking beyond Amazon Marketplace.

Many analysts may say that it's just a one-off instance. But Amazon CEO Jeff Bezos knows how one small change now can result in large differences later. Some media reports suggest that Bezos is

concerned about Shopify's growth trajectory, and has created a secret task force to understand why merchants favour Shopify.

Shopify's short-term hurdles

While Shopify continued to grow by leaps and bounds in 2020, its growth has hit a speed breaker of uncertainty in 2021. The near-term demand for its subscription and merchant solutions is unclear as there are many moving parts. This year will see a pullback as the government phases out the fiscal stimulus package, which will increase unemployment. Higher unemployment and no benefits money will impact consumer spending.

Then there is uncertainty on how long will it take for a vaccine to ease the pandemic situation. For instance, the fear of mutant coronavirus has once again induced lockdowns in some regions. Moreover, the pandemic has attracted big names like **Microsoft**, **Google**, and **Facebook** to e-commerce. All these short-term headwinds could see a pullback in Shopify's stock price.

The valuation game

Shopify stock has surged 230% from its March low and is currently trading at 75 times its sales per share. This valuation comes on the back of 95%-100% revenue growth in the second and third quarters. When Shopify releases its fourth-quarter earnings, probably early February, it might report another quarter of 95%-100% growth, sending the stock above the \$1,650 price.

But this growth will begin to fade in 2021 as the pandemic-induced fever cools. The base year will have pandemic sales that will be difficult to surpass. Short-term investors will cash out their profits as the revenue growth rate slows, unemployment rises, and benefits money starts phasing out.

A similar situation happened in September. The Canada Revenue Agency (CRA) ended the Canada Emergency Response Benefit (CERB), and there was uncertainty around the Canada Recovery Benefit (CRB). At that time, many Canadians cashed out their investments to take care of daily expenses, sending Shopify stock down 23% to \$1,166 from \$1,487.

I expect a market correction between April and June when most people claiming CRB exhaust their 26-week limit. The CRA will also start clawing back excess CRB after Canadians file 2020 tax returns by April end. That time, [Shopify stock could fall](#) to \$1,200, a great price point to buy the stock.

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Author

pujatayal

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