Shopify (TSX:SHOP) Stock: Growth Potential Like Few Other TSX Stocks Today

Description

Canada's largest company by market capitalization, **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) is also one of the top growth picks for many investors right now. This isn't hard to understand. Shopify has pole vaulted over every ridiculously high growth target the market has set to date. This is a growth stock that has only blown investors and analysts away. To think this will stop suddenly is foolish, in my view.

Will Shopify be able to grow into its valuation? That's a harder question to answer.

Here's why I think the answer could be yes. Indeed, I think more parabolic growth could still be on the horizon for this company.

A highly desirable business model

As I've stated many times before, e-commerce growth isn't going to suddenly decelerate. Shopify is in one of the most enviable positions of any company in being able to directly benefit from this robust long-term secular growth driver.

The company's integrated e-commerce platform is the lifeblood of so many businesses struggling to stay alive right now. If anything, this pandemic has accelerated the already red-hot transition to e-commerce from traditional bricks-and-mortar retailers. I think a continued acceleration of growth in this segment is not only probable, but likely. Shopify is positioned to capture even more market share due to its superior product and its customer-centric focus. There's nothing not to like about this business model.

Could valuation concerns be pinning this stock down?

Shopify's stock seems to have found some resistance around the $1,500 level. Since early this year, shares have yet to breach their 52-week highs. I think there could be many reasons for this. Investor could be trimming their Shopify positions that have may grown to become too heavily-weighted in their portfolio.

Additionally, there might be some speculation about the company’s valuation at this level. After all, any stock that is trading around 60-times sales deserves a double-take.

Shopify is a company that investors know trades at a ridiculous premium right now. With top line growth rates like Shopify’s, it’s easy to understand the willingness to accept such valuations. Now that the company is producing bottom line results, I think more attention will go toward Shopify’s profit margins moving forward. However, if Shopify is able to blow away analyst expectations as they have with revenue numbers in the past, this could be a moot point long-term.

I do think a tremendous amount of growth is priced in right now with Shopify. That said, until Shopify doesn’t perform, there’s still parabolic upside with this stock.

Institutional money could be the longer-term story here

One of the key reasons many large or mega-cap companies have outperformed late is capital flows. Money has moved from the bond markets where yields are near-zero toward stocks. In particular, growth stocks have garnered the most attention in this low interest rate environment.

There is strong institutional support behind this stock. Many funds have been forced to buy Shopify through ETFs or other market-weighted mandates. Money managers don’t want to miss out on the returns Shopify provides. Doing so would likely result in fund underperformance. Nobody wants to be on the sidelines watching a company go parabolic. If Shopify continues to outperform over the long run, and this parabolic growth continues, we’ll see more money pile into this already crowded trade.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

2. Tech Stocks

Date
2025/07/28
Date Created
2021/01/25
Author
chrismacdonald