Should You Buy Shopify (TSX:SHOP) Stock After a Stellar Q4 Earnings Beat?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) is one of the most remarkable Canadian growth stories in decades. The white-hot stock had continued its epic climb in early 2021, defying short-sellers and the laws of gravity en route the $1,800 mark.

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Shares of Shopify have enjoyed a considerable amount of multiple expansion since the pandemic began. But was such a steep re-valuation of an already expensive stock justified by pandemic tailwinds? That's the million-dollar question. The stock's nosebleed-level valuation (SHOP stock recently surpassed the 75 times sales mark) has made the growth king a high-risk/high-reward proposition. With the analyst bar set so high, the stakes are the highest they've ever been.

Of course, Shopify stock will probably never be anything short of ridiculously expensive. That said, I think it's unwise to neglect valuation in favour of a stock's momentum. Chasing hot stocks can be harmful to your wealth. Even if the evaluation process of high-growth businesses like Shopify is tough, it's still worth the effort.

I'm not chasing Shopify stock after Q4 earnings

Chasing momentum and neglecting due diligence paid big in 2020, but there's no telling if the strategy will continue to produce results in the new year.

The higher a momentum stock climbs, the more room it has to fall. And such a fall could be sparked by something as benign as a solid earnings report, with less-than-stellar forward-looking guidance. That's exactly what happened to Shopify on Wednesday. SHOP stock fell under pressure, ending the day down 3% following the release of some terrific top- and bottom-line results that included a side of soft 2021 guidance.

Shopify: Great Q4 earnings and soft guidance

The fourth-quarter results themselves were actually quite stellar. The company clocked in $978 million in revenue — up a whopping 94% year over year. Earnings were also quite stellar, with $1.58 in adjusted EPS, surpassing the consensus estimate that called for $1.28.

Shopify ended 2020 with an exclamation mark. But investors grew jittery over management's softer guide. Many analysts will likely lower the bar for the year ahead, as the company's pandemic tailwinds are likely to fade going into late 2021 and early 2022, as safe and effective COVID-19 vaccines continue to be rolled out across the nation.

"We expect that we will continue to grow revenue rapidly in 2021, albeit at a lower rate than in 2020." Shopify noted in its quarterly earnings release.

Indeed, 2020 will be a tough bar to pass. While I think Shopify is more than capable of building on the strength it had last year, it's tough to gauge just how much growth will slow down as the world makes a gradual return to normalcy.

The stakes are still too high for my liking

Analysts will be inclined to lower the bar modestly moving forward, but is it possible that Shopify could suffer from a drastic growth deceleration in the post-COVID environment? Who knows? With valuations still at the higher end of the historical range, though, I wouldn't want to run the risk of being caught on the wrong side of a missed earnings report.

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If Shopify stock can plunge following an incredible report, who knows what will happen if the company actually misses estimates?

With the pandemic likely to end over the next 18 months and a rising competitive threat with **Amazon.com** and its latest acquisition of Selz, a top competitor of Shopify, I think there are negative catalysts that should have some thinking about taking profits on the stock.

Foolish takeaway on SHOP stock

Now, I'm not calling for a crash in SHOP stock. However, I do think it's at risk of consolidating as sales play catch up.

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