



Why Did Shopify Stock Fall 12% to \$1,632 After a Bazooka Earnings?

Description

After a blockbuster year, **Shopify's** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock is receding to normalcy. The pandemic just hit the red button for Shopify. It accelerated all growth figures, be it revenue, profit, gross merchandise volume, or the stock price. Shopify's years of innovation paid off in just one year when the pandemic forced every customer to shop online, every retailer to open a shop online.

There is no doubt why Shopify stock tripled from \$600 to \$1,900 in a year. But you can't always drive at bazooka speed, or you will burn. As Shopify's growth rate returns to normalcy, so does its stock price. The stock has corrected 12% in two weeks to \$1,632.

Why did Shopify stock fall post-earnings?

Remember, the stock price always shows the company's future earnings potential. Shopify stock jumped more than 185% last year because the company witnessed a strong demand. Its revenue surged 85%, and for the first time in over six years, the company reported net profit.

The 185% stock price rally was a reflection of the 2020 earnings. The US\$2.9 billion revenue and US\$320 million profit is already priced into the stock. In the earnings call, Chief Financial Officer Amy Shaperro gave a realistic view of 2021. She expects the growth in revenue, subscriptions, and gross merchandise volume (GMV) to return to the pre-pandemic level. As the business growth normalizes, so will the stock price.

Seasonality plays a role in Shopify's stock price momentum

Earning is an important event for every stock. Shopify stock surged 33% in February before the earnings release on February 17. Investors and traders had placed high expectations over the fourth-quarter earnings as that is a seasonally strong quarter. And the 2020 fourth quarter was special because the holiday season sale plus the second pandemic lockdown pushed the traffic online. Its Black Friday/Cyber Monday [sales](#) surged 76% to US\$5.1 billion.

The first quarter is the weakest for Shopify as overall buying slows down. Hence, you will see a correction in Shopify's stock price in March and April as investors anticipate weak earnings figures unless there is a major acquisition or one-off event. After April, you will see Shopify stock gain momentum as shopping starts increasing. I expect a little more selling and Shopify stock to fall below \$1,400.

New equity capital

Why I expect Shopify stock to fall further is because the company is raising US\$1.56 billion in equity capital by offering 1,180,000 new Class A subordinate voting shares. It is the second time in six months, Shopify is raising equity capital. This will dilute equity shareholders' interest. But once it injects the capital into the business, the stock price will surge.

The April tax season

The second reason why Shopify stock is falling is because of the April tax season. The Canada Revenue Agency (CRA) will claw back some of the stimulus money is distributed to Canadians as cash benefits. It was this stimulus money Canadians had invested in Shopify last year that inflated its stock price. Hence, the stock fell 23% in the first half of September 2020 as Canadians cashed out to pay income tax. History is likely to repeat itself in the April tax season.

Should you buy Shopify?

All of the above scenarios that are pulling down Shopify stock are temporary. They will subside, and the stock will return to its growth trajectory. The stock could probably cross the \$2,000 by the end of this year or even before given the e-commerce giant sees pre-pandemic level growth.

Shopify is a stock to [buy at the dip](#). You can buy some stocks of Shopify now at the \$1,632 price if you are worried that the stock will surge. You can buy the remaining shares when the stock falls to \$1,400. Buying at a dip will increase your upside potential. This is a stock worth holding on to for the long-term unless the tables turn against Shopify.

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