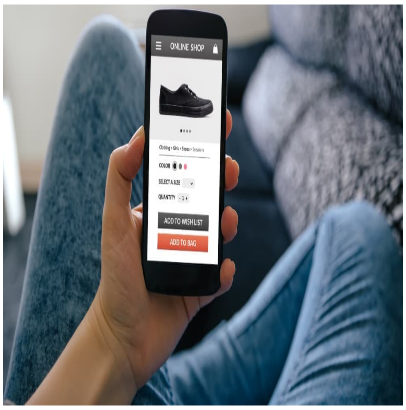

Shopify (TSX:SHOP) Stock: Finally Coming Down to Earth

Description

Shopify (TSX:SHOP)(NYSE:SHOP) is quite an achievement for the Canadian equity market. The millionaire maker tech stock has made early investors massive fortunes due to its seemingly constant growth on the TSX. Besides investors, merchants and partners working with the platform now have the means to become millionaires in the future.

Ever since going public, Shopify's valuation grew almost 5,200% until February 2021. 2020 was a blockbuster year for the company. Years of innovation paid off in a single year, as the pandemic forced every customer to shop online. Every retailer had to open online stores to accommodate the changing customer requirements, and Shopify was there to provide.

It came as no surprise that Shopify went from $600 per share to $1,900 per share in the space of a year. However, you cannot always keep going at such a fast pace because a correction always comes. That is precisely what is happening with Shopify right now.

Why Shopify declined after its earnings report

Between February 19 and February 25, 2021, Shopify's valuation declined by 13.15%. The sudden decline in its valuation started two weeks after its earnings release. Many experts and yours genuinely believe that Shopify's correction still has some way to go. It might go down as far as $1,400 per share before normalizing as more retail investors drop their shares and only long-term investors remain.

You should remember that a company's share price does not reflect its current value. Rather, it shows the company's future earnings potential based on its fundamentals. Shopify jumped by over 185% last year because of the strong demand for its services. The company reported net profit for the first time in six years during 2020.

The company's business growth rate has started to normalize, and that is affecting its stock price.

Season plays a vital role in share prices

Releasing earnings reports is a crucial event for every publicly traded company. Shopify's share prices surged 33% in February before the earnings release on February 17. Investors and traders alike placed high expectations over its Q4 2020 earnings because it is typically a strong quarter. 2020's fourth quarter was also exceptional because of the holiday season increasing the demand for online sales and services.

The first quarter is typically the weakest for Shopify. Overall buying activities slow down after the holiday season, leading to a stark difference between sales in Q4 of one year and Q1 of the next year. Barring any one-off event or major acquisitions, Shopify might continue to show some weakness in terms of its earnings and valuations in March and April.

Foolish takeaway

With Shopify finally coming down to Earth, this decline might present you with an attractive opportunity to purchase the stock on the dip. Many retail investors with a short-term horizon will be quick to unload their shares to cut their losses. Long-term investors who realize that this is most likely a temporary decline in its valuation will stick it out.

It is rare for an opportunity like this to present itself for investors interested in the high-growth tech stock. Shopify is trading for $1,572 per share at writing. There is a chance that it might decline further before it gradually begins climbing up as sales improve. Whether or not its valuation declines further, I believe that Shopify could be a bargain to consider for your investment portfolio.

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adamothman