Shopify (TSX:SHOP) Going Down: Should You Buy on the Dip?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) has been one of the best-performing stocks to ever trade on the TSX in terms of its growth. Since its initial public offering in 2015, the stock has gained over 4,000%. Not many stocks can boast the same kind of rapid growth.

Shopify has been on a downward trend in recent weeks. The stock has fallen more than 25% in the last month. Despite its setbacks on the stock market, it remains one of the strongest performers on the TSX. The company continues to play an important role in tomorrow's society, and it has garnered significant institutional investments over the years.

So, why is Shopify declining right now, and is it worth investing on the dip?

An expected deceleration

The primary reason that could be attributed to its decline could be Shopify's deceleration in revenue growth. Revenue growth deceleration is when a company's revenues are increasing, but the *rate* of growth is slowing down.

Shopify's revenue growth has been slowing down in recent years. While it continues to make more money, its revenue-growth rate might be falling short of investor expectations. If its deceleration is extreme enough, any company's stock can experience declining prices. That is what is happening with Shopify right now.

Is the slower growth going to be a problem?

This kind of slowdown in its revenue growth is not new. Shopify grew its revenue at 90% a year before it went public. The company's growth rate dwindled down to 45% in the years following its IPO, but 45% is still a strong figure. Shopify gradually reclaimed a 90% revenue-growth rate, going almost double in the second and third quarters of 2020.

However, the revenue growth was primarily fueled by the fallout from COVID-19. The pandemic forced many retailers to shut their physical stores down and open online stores. Consumers flocked to online stores — something that Shopify holds the biggest infrastructure for.

The pandemic is bound to end at some point. When it does, the main catalyst that fueled Shopify's revenue growth rate during the pandemic will be gone. The company is already aware of this, and it has already warned investors to expect slower growth moving forward. As far as the company's preparedness for the revenue growth slowdown is concerned, Shopify is already well aware and well positioned.

Foolish takeaway

Shopify might not produce the kind of returns in the future with everything adding up as it has in the past. The stock has had an incredible run in its six years as a publicly traded company, and it has doubled in value each year except for one.

While Shopify might not become a trillion-dollar company in a few years, the stock can eventually enter the trillion-dollar market cap. The stock could be worth owning, and the current dip makes for an interesting entry point for investors to consider for long-term wealth growth.

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