Shopify's Parabolic Move Is Far from Over

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) is an expensive stock, trading at nearly $1,400 per share at the time of writing. But it is also a world-class grower. In the Q4 earnings call last month, this e-commerce platform said that it earned $1.58 per adjusted share, up 267% year over year. Further, the company's revenue doubled to $978 million.

Despite a volatile 2020, Shopify failed to release specific revenue guidance in its earnings call, contributing to the stock's underperformance. However, I think this underperformance is only temporary, and Shopify could bounce back soon.

Here's why this company's stock could [continue](#) on its parabolic path.

Shopify's competitive edge has no match

Shopify exists in a sector that is heavily prone to competition for strong brands. Market leaders always need to be on the lookout for companies that can damage their market position. Since bursting onto the scenes in 2004, Shopify has remained one of the top bets consistently, escaping the claws of competing e-commerce platforms.

This Canadian firm became instantly famous, as merchants found it extremely easy and reliable to set up an online store at a hosted domain. Over the years, this firm has grown to become a central hub for small merchants, supporting the entirety of a shopkeeper's online business like Nestle and Red Bull.

Not just that, but Shopify has expanded its presence into the digital marketing space (social media, website, and mobile stores). The company has become a mainstay in the omni-channel space, developing solutions for brick-and-mortar stores. Thus, I don't see any integrated e-commerce platform that can significantly alter Shopify's dominant market position today.

E-commerce expected to grow long term, with a very robust boost due to the [pandemic](#). Accordingly, I think Shopify's product superiority provides investors with a small but meaningful moat.

Growth by acquisition

In addition to the front-end interface and cloud-based domain hosting, Shopify also manages inventory, customer service, etc., using several online tools. One such subscription platform, Stamped.io Pte, was acquired by Victoria-based **WeCommerce Holdings**, a company tied to Shopify, late last year.

WeCommerce has put forth a fascinating rationale in this acquisition. SAAS products like Stamped.io that are not included in the core Shopify platform collectively generated $6.9 billion in 2019 — more than four times Shopify's own revenue.

With Shopify expected to grow following an explosive 2020, I think this is an interesting way the firm can ensure long-term growth thesis. By either outsourcing such subscription-based products or pursuing deals to acquire them, this firm can open new channels for revenue growth in the coming years.

Bottom line

In Q4 2020 earnings call, gross merchandise volume outperformed analyst expectations to generate skyrocketing revenues. However, the firm has also hinted that earnings will grow in 2021, though likely at a slower rate than the previous year.

Shopify's management team has done an incredible job of generating growth however possible. It appears organic growth may slow in the forthcoming year, but the company may pursue more deals to juice growth over the long term.

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