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

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock is down by more than 20% in 2021. It's been following the plunge in the rest of the tech sector so far this year. The stock has dropped lower amidst a sell-off wave in high growth stocks as investors continue to re-adjust their portfolios to rising yields.

However, this is still Canada's most promising tech company with plenty of potential. Over the past few years Shopify has added interesting new ventures and features to the platform that greatly enhance its core value for shareholders. Which is why potential investors should consider if now is the right time to buy the dip.

Here's a closer look.

Shopify's new ventures

The Shopify team has been aggressively expanding the platform into new segments. The Shopify fulfillment network is well underway. Last year, the company also partnered with CoinPayments to allow merchants to accept Bitcoin and other cryptocurrencies. Meanwhile, the growing ecosystem of third-party software providers has expanded so rapidly it has spawned its own public company.

In short, Shopify has made key investments to sustain its edge. A strong balance sheet with $6.4 billion in cash also leaves it well-positioned to enhance its product offering and strengthen its competitive position.

Core business growth

Despite the pullback, the e-commerce software juggernaut is still an exciting pick as one of the biggest winners of the post-pandemic era. The company continues to benefit from a shift in consumer demand from brick and mortar stores to online shopping platforms.

Similarly, Shopify continues to see an uptick in new merchant sign-ups on its platform, leading to a sharp rise in subscription revenue. Total revenue in the fourth quarter was up 94% to $977 million. The company bounced back to profitability, posting a net income of $319.5 million, reversing a 2019 net loss of $124.8 million.

Robust growth is expected in 2021, even though management remains more cautious about expansion. As more merchants look to take advantage of a change in consumer shopping patterns, Shopify should see continued revenue growth on subscriptions. Gross merchandise volume is also expected to increase significantly as the company expands its menu of merchant solutions.

Shopify stock valuation

The stock is not cheap. With a market cap of over $172 billion, it is valued at a price-to-sales multiple of 46.5. A forward price-to-earnings multiple of 223 also affirms the hefty valuation.

It seems certain that growth in 2021 will be much slower than 2020. In fact, the company may have pulled forward several years of growth and adoption last year. That means the current valuation is simply too high, despite the pullback. Which is why it’s best for investors to avoid the stock for now, if they’re seeking growth at a reasonable price.

Bottom line

Shopify is Canada’s most prestigious tech company. Given its recent acquisitions and strength of its balance sheet, this company is likely to maintain its dominance in the years ahead.

However, the valuation is simply out of whack. Growth could slow down in 2021, which is why investors may want to sideline this stock despite its dip.

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