Shopify (TSX:SHOP) Stock: Buy the Dip?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock has had a rough go of it in 2021 so far. Down 4.45% for the year and 28% from its all-time high, it appears to have hit a rough patch. In the years between its IPO and today, SHOP has risen more than 4,000%. It's been an incredible ride long term. To get where it is today, SHOP has had to survive dips similar to the one it's currently in the middle of. Therefore, it would be unwise to count Shopify out. But there are risks that investors should be aware of. In this article, I'll explore those risks and try to answer whether SHOP is a good "dip buy" at today's prices.

default watermark

Why SHOP is tanking this year

In 2021, Shopify appears to be tanking for two main reasons:

1. Expected revenue deceleration
2. A broader selloff in tech stocks

These two factors are interrelated, and they're ultimately rooted in the COVID-19 pandemic.

Shopify, like **Amazon.com**, actually benefitted from the COVID-19 pandemic rather than being harmed by it. When retailers were forced to shut down, consumers flocked to online stores like those built on Shopify. With retail closed, consumers had nowhere to shop but online. As a result, Shopify saw its revenue grow 97% year over year. That helped propel the stock higher than it had ever been before. But now, revenue deceleration is a real threat. When the economy opens up, consumers will have more brick-and-mortar businesses to choose from. Shopping online will become less necessary. If that happens, then Shopify stores could see fewer sales. Shopify's management recently admitted that this was a risk factor for the company, and investors seem to have taken note.

It's the same basic story with the tech selloff. As of this writing the NASDAQ was down about 7% from its high set earlier in the year. That's also likely because of the pandemic. Many tech stocks gained during the pandemic, like Shopify and Amazon did. Even the tech companies that did not *directly benefit* from the pandemic didn't lose any money from it. **Apple**, **Microsoft**, and **Facebook** all posted strong earnings growth for 2020, even with the pandemic in the mix. As a result of their strong earnings last year, many investors bought their shares up, seeing them as safer than banks, energy stocks and airlines, which got hit hard by the pandemic. Now, however, tech stocks are getting very expensive. And beaten-down sectors have more to gain from the re-opening. So, investors are cycling back into value stocks after more of a year of them being out of favour.

Can it recover?

As we've seen, SHOP is currently declining on expected revenue deceleration and sector-wide weakness in tech. Neither of these factors mean that the company is intrinsically worth less than it was last year. But investors *expect* them to cause problems.

As for whether they *will* cause problems, we can only wait and see. Certainly, SHOP's most recent quarter showed revenue deceleration on a sequential basis. Revenue grew at 93%, which is phenomenal, but lower than what SHOP had posted in the prior quarter. If the deceleration continues, then SHOP may have further to fall. Overall, though, the company has a bright future ahead of it. The rise of e-commerce is a secular trend, and SHOP's low fees mean it will always have a place in the industry.

CATEGORY

1. Investing
2. Tech Stocks

default watermark

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing
2. Tech Stocks

Tags

1. Editor's Choice

Date
2025/09/14
Date Created
2021/03/29
Author
andrewbutton

default watermark

default watermark