Buy Shopify Stock Right Now While it’s Cheap

Description

With a nosebleed-level 52 times price-to-sales (P/S) multiple, **Shopify** stock (TSX:SHOP)(NYSE:SHOP) is one of the most expensive stocks in Canada. The last thing that would come to mind with the incredible e-commerce king is that the stock is cheap. Undoubtedly, to many Canadian investors, Shopify shares and “cheap” are oxymorons that shouldn’t be used in the same sentence.

Just because a stock is expensive doesn’t mean it’s overvalued

That said, Shopify stock is a name that will probably never be cheap according to traditional valuation metrics like the P/S or P/E (price-to-earnings) ratios. They scream of severe overvaluation and lead many to sit on the sidelines. However, just because a stock is expensive according to ratios does not mean it’s overvalued. Just as you wouldn’t dub a value trap that commands a rock-bottom P/E ratio as cheap, you shouldn’t judge Shopify stock based solely on frothy valuation ratios.

So, is Shopify actually “undervalued” after its latest plunge into bear market territory? Or should you continue avoiding the tech darling like the plague?

This isn’t the first major crash in the stock, and it won’t be its last. If you bought any prior dips, like the one suffered last February and March, you made a huge profit over a very short timespan, as SHOP stock proceeded to recover and correct to the upside.

With the rising 10-year U.S. Treasury note yield pressuring growth stocks, Shopify will probably continue to be outshined by its unloved value counterparts. But just as you wouldn’t time the stock market, you shouldn’t time the bond market. Bond yields can go down, too. And if they continue to retreat below the 1.6% mark, we could witness a continued rotation back into the growth winners that stole the show in 2020.

The case for buying Shopify shares now

I have no idea where bond yields are headed next. If they head higher, Shopify stock’s pains could mount, and investors could be in for some pain. On the flip side, Shopify is a company that's managed to defy the odds in the past. And it'll probably continue to do so under the leadership of its visionary CEO Tobias Lütke, a man whose genius may be comparable to the likes of an Elon Musk.

In any case, it's tough to post blowout quarter after blowout quarter. Eventually, the laws of gravity will pull Shopify back down to Earth. And although pandemic tailwinds may be slated to fade over the next year, I still think it would be a mistake to count Shopify out of the game, even at these heights.

The latest dip in Shopify stock is likely to prove to be a great long-term buying opportunity. The TAM (total addressable market) hasn't been fully penetrated yet. While Shopify's best growth days may be in the rear-view mirror, I still think the company has ample growth left in the tank. Moreover, the company may also be poised to make a bigger move into profitability. As the company matures, Shopify has the potential to become profoundly profitable, as Lütke and company continue to capitalize on the opportunity at hand.

Foolish takeaway on Shopify stock

Some view the end of the pandemic as an insurmountable headwind for e-commerce darlings like Shopify. I view the post-COVID world as an environment for Shopify to build upon its strength. As such, I'd look to buy into a starter position in the stock while it's still off over 20% from its all-time highs. Shopify stock is taking a breather now, but sooner or later, it'll be well rested and ready to run again. And you can bet that a lot of Canadians will be chasing it.

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Author
joefrenette