



Shopify vs. Amazon: Which E-Commerce Stock Is a Better Buy?

Description

E-commerce is one of the hottest sectors right now given that the pandemic has accelerated the shift towards online shopping in the last year. As COVID-19 continues to act as a massive tailwind for digital platforms, let's see which between **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) and **Amazon** ([NASDAQ:AMZN](#)) is a better e-commerce stock to buy right now.

While one is the largest e-commerce player in the world, the other is currently Canada's largest company in terms of market cap.

The bull case for Shopify stock

Shopify has been one of the top-performing stocks on the TSX ever since it went public back in 2015. The e-commerce heavyweight has, in fact, returned over 4,000% after its IPO. So, for an early investor, a \$1,000 investment in Shopify would be worth close to \$43,000 today.

Shopify continues to grow top line at an enviable pace. In the first quarter of 2021, the company [more than doubled](#) its sales and managed to increase its bottom line by 11 times, indicating it benefits from high operating leverage.

Shopify has two primary business segments: Merchant Solutions and Subscriptions. While its Merchant Solutions business grew by 137% to US\$668 million in Q1, Subscription sales were up 71% at US\$320.7 million. Shopify's gross merchandise volume also grew by 114% year over year to US\$37.3 billion.

The company's management did not provide any guidance for 2021 and expects revenue growth to decelerate compared to 2020. However, Wall Street forecasts the top line to grow by 51.5% to US\$4.44 billion in 2021 and earnings growth is estimated at 10%.

In terms of valuation, Shopify is trading at a steep multiple. The stock has a sky-high forward price-to-sales multiple of 31, but it's difficult to ignore the company's long-term growth potential.

Shopify stock is also trading 24% below its record high, which provides investors an opportunity to buy a quality growth stock at a lower valuation.

The bull case for Amazon stock

Amazon has also been a massive wealth creator for long-term investors, returning 1,570% in the last 10 years. Last week, [it reported net sales](#) of US\$108.5 billion in Q1, growing its top line by 44% year over year. Comparatively, its net income more than tripled to US\$8.1 billion, and earnings per share grew 215% to US\$15.79.

Comparatively, analysts expected Amazon to post sales of US\$104.5 billion and earnings of US\$9.54 per share in Q1. In the last 12 months, the company grew its free cash flow by 69% to US\$67.2 billion.

Similar to Shopify, Amazon is well poised to derive market-beating growth in the upcoming decade. It spent over US\$45 billion in capital expenditures in the last four quarters and is investing heavily across business segments, including cloud infrastructure.

Amazon is a market leader in several businesses. It is the largest e-commerce company in the world and leads the public cloud infrastructure market as well. Amazon is also the third-largest digital ad platform behind **Alphabet's** Google and **Facebook**.

Amazon stock is trading at a forward price-to-sales multiple of 3.4 and a price-to-earnings multiple of 59. Analysts expect Amazon stock to touch \$4,204 in the next 12 months, which is 27% higher than its current trading price.

The Foolish takeaway

Both Shopify and Amazon are great stocks to own given their stellar growth rates and expanding addressable market. But if you have to choose between them, I would lean towards Amazon due to its leadership position, huge economic moat, and lower valuation.

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