



Top TSX Pick for May 2021: Shopify Stock

Description

Despite soaring to nearly \$1,600 per share after reporting earnings, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) has since traded below the \$1,300 level. Accordingly, growth investors may wonder if something is going wrong with this stock right now.

However, one must consider that the entire tech sector has sold off quite dramatically in recent weeks. It appears risk-off sentiment is taking hold, as investors rotate away from growth into value stocks.

Inflation concerns have bid up bond yields. Accordingly, growth stocks are taking a breather right now.

However, I think this might provide the perfect situation for long-term growth investors to consider such stocks. Shopify's value [post-earnings](#) was certainly justified. At its current level, this stock looks cheap.

Here's more on why I think this is the case.

Promising e-commerce outlook

It's an overly simplistic statement to say that the "e-commerce outlook is promising." But it is.

And this is the key reason investors own Shopify. Indeed, Shopify's business model is as much a pure play on e-commerce growth as investors could ask for. The investing environment seems to have changed, but I don't think this catalyst has changed at all.

As more consumers have shifted from traditional brick-and-mortar retail buying to online, I think some stickiness will persist. Yes, there will likely be some sort of slowing growth coming out of this pandemic. However, at these prices, I'd wager a guess that a significant portion (if not all) of this headwind is priced in at these levels.

Shopify has never been a cheap stock, and any sort of slowing growth isn't good. However, as Shopify proved with its recent earnings report, this company isn't slowing down just yet.

Additionally, Shopify has more than enough liquidity to go on an acquisition spree. It continues to innovate and launch new products to help its clients capitalize on this increasing demand for e-commerce. For example, it expanded its retail channels to integrate **Walmart** and **Facebook** shops, allowing third-party merchants to list inventory on these websites.

Essentially, Shopify powers the backend storefronts of small- and medium-sized businesses, setting it up as a strong contender to **Amazon** without competing with it head on. It also shows no signs of slowing down, and it may soon outgrow its competition.

A powerful partner ecosystem makes it a great growth stock

Shopify is designed to support businesses from the ground up and make it stand out in a crowd. This strategy is in stark contrast to its rivals like Amazon, which brings multiple sellers onto one platform. Moreover, since Amazon is the sales mediator on its platform, sellers do not get a real chance to connect with their customers.

By contrast, Shopify helps SMBs develop personalized storefronts unique to the business. These third-party merchants can build their own brand and nurture customer relationships. I'm not saying that Amazon's business model is flawed — that is far from the truth. However, I much prefer Shopify's business model in terms of its innovative approach to creating a marketplace for SMBs.

Shopify deserves credit for becoming Canada's largest enterprise by market cap. Yes, it isn't cheap — not by a long shot. But it is certainly trading at a valuation today that offers a nice opportunity for risk-adjusted growth over time. And I like that.

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Author

chrismacdonald

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