



Better Buy: Shopify (TSX:SHOP) or Air Canada (TSX:AC)?

Description

Growth and value investors have been going back and forth about which strategy works best in the long run. While there are certainly merits to both, this debate could go on forever. Among Canadian growth investors, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) is one of the biggest favourites. On the other side of the coin, value investors have been very interested in **Air Canada** ([TSX:AC](#)). These are two stocks with two very different reasons to invest in them. Which one would be a better buy today?

E-commerce is rapidly increasing in adoption

Since 2000, consumers have been steadily increasing their adoption of online retail. However, over the past year, the adoption of e-commerce seems to have increased significantly. At certain points last year, e-commerce sales accounted for more than 20% of all retail sales in Canada. One of the main companies enabling this shift towards online retail is Shopify. The company offers a platform that merchants of all sizes can use to power online storefronts. As of this writing, more than 1,000,000 merchants use Shopify's platform worldwide.

Up until last week, growth investors have had little to celebrate about when it came to Shopify stock's year-to-date performance. After starting off the year red-hot, and gaining more than 33% in value, Shopify stock dropped as much as 32%. However, a recent rally in the company's stock has seen it finally become profitable since the start of the year. As of this writing, Shopify stock is up just over 7% since the start of 2021.

Shopify's financial performance over the course of the year has been vastly different from its stock's performance. In its Q1 earnings report, Shopify announced that its quarterly revenue had seen a year-over-year increase of 110%. In addition, its monthly recurring revenue has continued to accelerate and is now growing at a CAGR of 45% since Q1 2016. These numbers all suggest that Shopify is continuing to grow at a significant pace and that shareholders should [see massive gains](#) in the long run.

Be careful with travel stocks

Air Canada is a company that needs no introduction among Canadians. It is the largest airliner in the country, carrying more than 51,000,000 passengers to 220 destinations in 2019. However, its large size and importance within Canada's economy wasn't enough to avoid a major collapse in its stock and business because of the COVID-19 pandemic.

From the start of the market crash to its lowest point, Air Canada stock dropped more than 75%. Since then, it has increased more than 100%, returning to a more reasonable valuation. However, the stock still sits nearly 50% lower than where it traded before the pandemic. This discrepancy in value from before and after the pandemic has caused many value investors to take up positions in the airliner.

[Looking at its financials](#), investors should note that many headwinds still affect the company today. Air Canada's management team acknowledges this in the company's latest earnings report: "Air Canada continues to face a severe drop in traffic and a corresponding decline in revenue and cashflows as a result of the COVID-19 pandemic and the travel restrictions imposed in many countries around the world."

Whereas Shopify's year-over-year revenue has increased, Air Canada's has gone in the opposite direction. In Q1 2021, the company reported a total revenue of \$729 million compared to \$3.7 billion over the same period last year. Nearly half of Air Canada's Q1 revenue didn't come from passengers. The company also reported a net loss of \$1.3 billion for the quarter. With an already razor-thin margin during normal years, a net loss of this magnitude could be catastrophic. Currently, it appears that an investment in Air Canada comes with much greater risk.

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2. Tech Stocks

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2. TSX:AC (Air Canada)
3. TSX:SHOP (Shopify Inc.)

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