



## Is Shopify (TSX:SHOP) a Good Buy in 2021?

### Description

A blockbuster first-quarter affirms **Shopify's** ([TSX:SHOP](#))([NYSE:SHOP](#)) position as a high-growth stock. Online shopping is a bigger part of retail now, and this level of activity could be sustained in a post-pandemic world.

Meanwhile, the [stock price has tumbled](#) along with the rest of the tech market. Shopify stock is now trading 14.5% below its all-time high set in mid-February. Is this a chance for long-term investors to buy the dip, or is the stock still overvalued considering future growth? Here's a closer look.

### Solid Q1

In its most recent quarter, the e-commerce heavyweight delivered a 110% year-over-year increase in revenues that came in at \$988.6 million. Subscription revenue jumped 71% to \$320.7 million. Gross merchandise volume on the platform surged 114% to \$37.3 billion.

Adjusted net income rose more than tenfold to \$254.1 million, affirming Shopify's ability to generate shareholder value. Management confirming plans to spend heavily on growth initiatives cements its commitment to expand the platform. The company has nearly \$7.9 billion in cash that it can use to fund its growth initiatives.

### Strategic partnerships

A strategic partnership with Google is another frontier that strengthens Shopify's growth prospects in the burgeoning e-commerce sector. The search giant is partnering with the e-commerce juggernaut to make it easier for the more than 1.7 million merchants to reach shoppers in Google search.

This isn't the only major partnership helping Shopify expand its horizon. Earlier this year, the company also announced a partnership with **Facebook** to integrate its online checkout platform Shop Pay across Facebook and Instagram. This move opens up another few billion in potential customers for the tech giant.

Megadeals like these could propel Shopify's transaction volumes to all-time highs. However, investors still need to consider whether all this good news and future growth potential has already been priced into the stock at current levels.

## Valuation

When it comes to valuation, Shopify is not cheap, the stock is trading at a price-to-sales multiple of 45. That's lower than it used to be just a few months ago but still higher than its long-term average of 15 to 20.

Investors need to consider that online sales were significantly boosted by the lockdowns last year. Shopify's revenue growth should be lower in 2021 due to base effects and the reopening of traditional retail. Even if Shopify achieves a 100% revenue growth rate for the year ahead, its price-to-sales ratio would simply adjust to its long-term average. In other words, this best-case scenario is already priced in.

Shopify stock is overvalued, and investors should look elsewhere for growth at reasonable prices.

## Foolish takeaway

At the wrong price, even the best growth opportunity isn't worth it. Investors often overpay for stocks right after a parabolic move up. Shopify stock has surged 65% over the past year. Now, it's trading at 45 times sales. That means it's overvalued, even if it delivers the same pace of growth this year. Investors shouldn't buy Shopify stock unless it dips lower.

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1. Investing
2. Tech Stocks

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