



## Forget GME Stock and Consider Shopify for Exponential Gains

### Description

The last week saw shares of **GameStop** ([NYSE:GME](#)) gain momentum, as retail traders were eying another short squeeze to drive the stock higher. GME stock was up 26% in the last five trading sessions and is currently trading at a market cap of US\$15.7 billion. GameStop's short volume ratio is 22%, which indicates there is some room for retail traders to initiate a short squeeze.

### GME stock is overvalued

GameStop was one of the leading companies for gaming enthusiasts, and it successfully built a competitive advantage over time. Gamers [could purchase](#) video games and refurbished hardware as well as trade games at GameStop. However, the shift towards digital gaming made GameStop somewhat irrelevant, driving its revenue lower at an alarming rate.

GME reported sales of US\$9.22 billion in fiscal 2018, and it fell to US\$5.09 billion in fiscal 2021. While analysts expect sales to rise by 5.3% to US\$5.36 billion in 2022, it's forecast to decline by 3.6% to US\$5.17 billion in 2023. Comparatively, GME is expected to improve its loss per share from US\$2.14 in fiscal 2021 to US\$0.53 in fiscal 2023.

It means that GME stock is trading at a forward price-to-sales multiple of over three, which is steep for a company that is grappling with tepid sales and negative profit margins. Its price-to-book ratio is also sky high at 33.

Wall Street remains bearish on GameStop stock and has a 12-month average price target of US\$48, which is significantly lower than its current trading price of US\$222.

### Shopify is a much better buy

For long-term growth investors, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) is a stock that has the potential to derive exponential gains. SHOP stock has been on an absolute tear since it went public and has gained 4,740% in the last six years.

Shopify is Canada's largest company in terms of market cap, and it continues to experience stellar growth. In Q1 of 2021, Shopify's revenue surged 110% year over year. Comparatively, its adjusted earnings per share rose to US\$2.01 from US\$0.19 in the prior-year period.

Shopify CFO Amy Shapero said, "Shopify's momentum continued into 2021 as digital commerce tailwinds remained strong and merchants took advantage of the range of capabilities offered by our platform."

While Shopify stock is also trading at a premium, the e-commerce giant is growing top-line and profit margins at a rapid clip. Wall Street expects Shopify sales to rise by 51.7% to US\$4.44 billion in 2021 and by 32.5% to US\$5.89 billion in 2022. Comparatively, its earnings might expand at an annual rate of 28% in the next five years.

Shopify has a price-to-sales multiple of 34.7 and a price-to-earnings ratio of 284. Despite its [nose-bleed valuations](#), analysts expect the stock to gain over 10% in the next year.

## The Foolish takeaway

When you purchase stocks as an investor, it is always advisable to hold them over a period of time and benefit from the power of compounding. It means you need to identify stocks that have an increasing addressable market, giving them the ability to deliver revenue and earnings growth. While both the gaming and e-commerce markets are expanding, GameStop continues to disappoint investors, and Shopify remains well poised to outpace the broader markets.

### CATEGORY

1. Investing
2. Tech Stocks

### TICKERS GLOBAL

1. NYSE:GME (GameStop Corp.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:SHOP (Shopify Inc.)

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