



## Why Shopify (TSX:SHOP) Stock Could Skyrocket in July 2021

### Description

**Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) has been one of the best tech stocks based on the returns it has yielded since its listing on the **Toronto Stock Exchange** in 2015. The stock has risen by more than 4,800% in the last five years. The company's unique business model, strong demand for its e-commerce solutions, and consistent innovation have been some of the key factors behind its immense success in such a short period of time.

Despite having yielded extraordinarily high returns in the last few years, I still find its stock worth investing in right now. Let's discuss why I expect its stock to inch up further in the coming months.

### Shopify's solid fundamentals

Shopify stock surprisingly didn't see much appreciation earlier this year. By the end of May 2021, it was trading with just 3% gains for the year — underperforming the broader market by a wide margin. During the same period, the TSX Composite Index had risen by more than 13%.

Towards the end of 2020, bears started arguing that Shopify might face a significant decline in its sales growth rate starting in Q1 2021. Their arguments fell flat when the company reported amazing sales growth in the first quarter. The Canadian tech giant posted US\$989 million in Q1 revenue. It reflected a 110% YoY (year-over-year) increase in its revenue. A massive jump of 137% YoY in its merchant solutions sales along with a consistent rise in its subscription solutions sales boosted its total revenue.

### Strong profitability

The pandemic-driven demand surge not only boosted Shopify's sales but also significantly expanded its profit margins. In the first quarter, the company reported an adjusted net profit of US\$254 million with a strong margin of 25.7%. This margin was significantly better than its adjusted net profit margin of only 4.8% a year ago and 20.3% in the previous quarter.

Shopify's management [plans](#) to utilize the recent massive business growth to expand the company's

business further. While the management expects rapid growth in its gross profit dollars to continue in 2021, it has guided the company's 2021 adjusted operating income to be lower than 2020 levels. To me, it sounds obvious, because as Shopify's pandemic-driven demand surge starts to fade out, its overall profitability might decline a bit. Nonetheless, SHOP is still likely to maintain much stronger profit margins in the coming quarters than most of its peers, in my opinion.

## Why the stock could surge in July

As I've argued in some of my [recent articles](#), I expect most of its subscription customers to continue using Shopify's e-commerce services, even in the post-pandemic world. That could continue to drive strong growth in the company subscription solutions — leading to better-than-expected revenue growth.

Interestingly, Shopify stock outperformed the broader market in June after trading on a mixed note in the first five months of the year. As of June 29, the stock was trading with 24.2% month-to-date gains compared to a 2.2% rise in the TSX Composite benchmark. This could be just the beginning of another medium- to long-term rally in Shopify stock. Investors' rising expectations from the company's upcoming results could help its stock soar in the coming months.

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