Is Shopify (TSX:SHOP) Stock Still a Buy?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock delivered some incredible gains this year. Starting the year at $1,400, it was at $1,800 as of this writing–a solid 30% gain. Shopify benefitted immensely from the COVID-19 pandemic, which sent its revenue higher. Stay-at-home orders prompted a surge in online shopping, which led to 40% annualized growth in the e-commerce industry.

In addition, 40% would be a solid growth rate for an individual company, but for a whole industry, it's outstanding. And Shopify *beat* that rate, posting four consecutive quarters of 90%+ revenue growth.

It's been a massive success story, to be sure. But serious questions can be asked about whether it can continue. The world is turning the corner on COVID-19, and with that, the jet fuel that powered SHOP's 2020 growth is about to evaporate. That doesn't mean the stock can't keep outperforming, but it does mean that future returns probably won't equal past ones. In this article, I'll look at three key facts that support that assertion.

SHOP races to all-time highs

SHOP's all-time high was about $1,850 achieved in February of 2020, right before the COVID-19 market crash hit. At today's price of $1,810, it's a stone's throw away from that level. Of course, Shopify has far higher revenue and earnings now than it did a year ago. Still, we've got a stock here trading near the top of its 52-week range. If historical trends are a factor in your investment decisions, that might not be positive.

Deceleration incoming

Another factor Shopify investors need to be aware of is the fact that the company's revenue growth is likely to slow down in the next reported quarter. SHOP's most recent quarter featured extreme growth: 110% year over year. That's pretty impressive, but after you post a quarter that strong, it becomes hard to follow it up with another. After all, you're starting from a higher base.

Additionally, we're turning the corner on COVID-19 right now, and that may not have a positive effect on Shopify's revenue growth. As previously mentioned, the COVID-19 pandemic actually helped Shopify as it forced retail stores to close. When the pandemic ends, retail stores will re-open, which could put further downward pressure on SHOP's revenue.

Competition heats up

Another factor that could work against SHOP in the future is competition. Recently a number of Shopify's competitors went public, including **BigCommerce, Wix,** and **Squarespace.**

After raising money in the markets, these companies have a lot more cash to play with, which they can invest to grow and catch up with Shopify. While that doesn't mean that Shopify will stop growing, it suggests that it will probably lose market share in the years ahead.

Foolish takeaway

What a run Shopify has had since its 2015 Initial Public Offering (IPO). Rising over 5,000% in the markets, it has solidly beaten all the relevant benchmarks. Today, the stock is once again setting new highs and defying expectations.

Ultimately, nobody knows how long this can go on. But provided you remember the risk factors mentioned in this article, the stock may still be a solid bet.

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