



Could Shopify (TSX:SHOP) Stock Rally Continue After Its Q2 Earnings Event?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has been rallying for the last two months after underperforming the broader market by a wide margin in the first five months of 2021. The stock was trading with only 3% year-to-date gains at the end of May compared to an over 13.2% rise in the **TSX Composite Index**.

Nonetheless, the stock started a massive rally in June along with some other fundamentally strong Canadian [tech stocks](#) like **Lightspeed POS** ([TSX:LSPD](#))([NYSE:LSPD](#)).

Shopify stock's recent rally

In June, [SHOP stock](#) jumped by 22.5% — much higher than the TSX benchmark's 2.2% gains for the month. By comparison, Lightspeed stock rose by nearly 18% last month. Shopify is continuing to extend its recent rally in July as it has already risen by nearly 11% despite the broader market weakness.

The company is readying to announce its second-quarter results on Wednesday. Let me explain why I expect its stock rally to continue in the coming months.

Expectations from Shopify's Q2 results

According to analysts' latest consensus estimates, Shopify could report a 46% year-over-year (YOY) rise in its sales to about US\$1.04 billion. If the company manages to meet this expectation, it would be Shopify's highest quarterly revenue figure ever, but it would reflect a sequential drop in its sales growth rate. Previously in the first quarter, the e-commerce service provider's sales rose by nearly 110% YoY.

Street analysts also project a YoY decline in Shopify's second-quarter earnings. According to their estimates, its Q2 earnings might drop by nearly 8% from the same quarter last year to US\$0.97 per share.

Shopify might still crush estimates

Shopify is one of a very few Canadian companies that have consistently for years been crushing analysts' earnings and sales estimates. For example, the company [posted](#) a 958% YoY jump in its Q1 earnings to US\$2.01 per share — nearly 167% better than analysts' estimate of US\$0.75. Similarly, its Q1 sales of US\$988.6 million were also exceeded Street's expectations.

I expect Shopify to continue crushing estimates in the coming quarters as the demand for its e-commerce services could remain strong in the post-pandemic world as well. Most small- and medium-sized businesses that subscribed to Shopify's e-commerce services during the pandemic might find it more convenient to stick with its services instead of spending a big amount of money on building their own tech infrastructure. This factor could boost its subscription revenue.

Moreover, its easy-to-use, feature-rich, and secure e-commerce platform could continue to attract more merchants towards its platform even after the pandemic fears completely subside. These are some of the factors that could help Shopify post much better-than-expected Q2 sales and earnings this Wednesday.

Is SHOP stock worth buying today?

While Shopify stock has yielded an astonishing 4,690% positive returns in the last five years, it still has room to inch up further. Surging demand, improving financials, and a strong earnings growth outlook could continue to boost investors' sentiments and keep its stock soaring in the coming quarters as well, I believe.

That's why long-term investors may want to add its stock to their portfolio right now before it's too late.

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