



Should You Buy Shopify (TSX:SHOP) Stock After Q2 Results?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) has been consistently delivering stellar financial and operating performances, as reflected through its back-to-back solid quarterly results. While a portion of consumer spending is rolling back to offline retail amid the easing of COVID-led restrictions, Shopify's initiatives to add more merchants to its platform and a continued shift towards e-commerce channels provides a solid foundation for growth.

With a market cap of over \$237 billion, Shopify stock has appreciated over 806% in three years and about 4,108% in five years.

As Shopify has gained quite a lot, one might ask whether it makes sense to invest in its stock at current price levels.

While Shopify is an expensive stock, there are good reasons why Canada's most valuable company should be a part of your portfolio. Let's take a look to understand why Shopify is a solid long-term bet, even at current price levels.

Stellar financials

Shopify delivered yet another [strong quarter](#) with its Q2 numbers handily outpacing the Street's expectations. The company's revenues jumped 57% year over year, while its adjusted EPS more than doubled.

Shopify's solid Q2 revenues reflect a 40% rise in its GMV (gross merchandise volume). Higher GMV also drove the Merchant Solutions revenue growth by 52%. The company's Subscription Solutions revenue increased 70% year over year, reflecting an increased number of merchants joining the Shopify platform. Meanwhile, its MRR (monthly recurring revenue) jumped 67%, reflecting growth in the merchant base and increase adoption of its retail POS.

Looking ahead, an economic reopening could lead to normalization in its growth rate. However, I expect Shopify to continue to gain market share, add more merchants, and witness an increase in retail locations using its payment services. Shopify expects its gross profits to grow rapidly in 2021. Meanwhile, its adjusted operating profits are likely to trend higher, despite an expected increase in

operating expenses in the second half of the year.

Multiple growth catalysts

Shopify has multiple growth catalysts that could continue to accelerate its growth and push its stock higher. The strong secular industry trends and higher e-commerce spending provide a [multi-year growth](#) opportunity for Shopify.

Meanwhile, Shopify is investing heavily in its fulfillment centres and expanding its sales and marketing channels, which could significantly boost its merchant base and, in turn, its revenues.

Furthermore, increased adoption of its products, including Shopify Payments and Shopify Capital, and international expansion augurs well for future growth.

Bottom line

I expect Shopify to continue to deliver strong financial numbers, thanks to its continued investments in growth initiatives and a large addressable market. Shopify is well positioned to capitalize on the growing shift of small- and medium-sized businesses towards omnichannel platforms. Further, improved operating leverage and strategic capital allocation are likely to cushion its profitability.

While I agree that Shopify stock is not cheap on the valuation front, its high growth warrants a premium. Overall, in my opinion, Shopify is firing on all cylinders and has ample room for growth. Long-term investors could use a pullback to start accumulating Shopify stock.

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Date

2025/08/14

Date Created

2021/07/30

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