



Can Shopify (TSX:SHOP) Keep Soaring in August?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) has been soaring in 2021. Following a blockbuster year in 2020, the stock kept up its pace, rising 30% in the first half of the year. The gains this year so far have not been as hot as in the prior year but are still way ahead of the broader TSX index. In this article, I'll explore whether SHOP can keep rising in August, paying particular attention to the company's recent second-quarter earnings release.

Huge Q2 earnings beat

Shopify released its [second-quarter earnings](#) last week, and they largely exceeded analyst expectations. Revenue [topped a billion dollars](#) and beat analyst expectations by \$69 million. EPS was \$2.24, beating estimates by \$1.29. GAAP net income was \$879 million. Like last quarter, SHOP had some unrealized gains in the earnings mix, so adjusted earnings were lower at \$284 million. Still, it was a solid and profitable quarter.

So, it's a little surprising that SHOP stock actually slid after earnings were released. The day immediately after earnings were released, the stock fell about 1%. You wouldn't expect that to happen after the company exceeded expectations on both revenue and earnings. As you're about to see, the company's outlook may have been the culprit for the selloff.

Deceleration ahead?

One possible reason for SHOP's selloff post-earnings is its earnings outlook. In its Q2 press release, Shopify forecast slower revenue growth than in 2020, citing

- A return to retail shopping;
- e-commerce growth returning to a normalized pace; and
- A waning of the COVID-19 pandemic worldwide.

These comments may have been what spooked investors in Shopify's Q2 earnings release. If they

were, the fear was not warranted. While Shopify warned of deceleration ahead, it also said that growth would be higher than in any year prior to 2020. So, the expectations were overall solid. A company can't grow at 90-100% forever; if the future deceleration takes Shopify's growth down to "just" 56%, then that's a win.

Foolish takeaway

Shopify stock has been on an incredible run over the last year and a half. Posting major earnings beats and rising dramatically in the markets, it has seriously rewarded investors — particularly those who had the stomach to hold on through the March 2020 stock market crash. At the bottom in March 2020, SHOP went as low as \$495. Since then, it has gone on to hit prices well over \$2,000. It has given up some of the gains since hitting those highs but is likely to keep rising if it can keep posting solid earnings.

So, let's answer the question I started this article with: *Can Shopify stock keep rising in August?*

Absolutely. It's not guaranteed to do so — a sector-wide tech slump or an adverse news item could hurt Shopify's rise. But the stock is more intrinsically valuable today than it was a week ago, despite the selloff. The chances that this stock rewards investors in the month ahead are fairly high.

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andrewbutton

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