



Forget Shopify (TSX:SHOP): This E-Commerce Stock Is Much Better

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) is Canada's biggest tech success story. In under six years, the stock has delivered a 5,280% return, making it the most valuable company on the market. As an entrepreneur, I admire Shopify's success. But as an investor, I wonder if there's a better option for growth ahead.

After all, Shopify's stellar run has pushed its valuation to a record-high. Even if it lives up to its growth potential, the returns may not be as impressive. Here's a closer look at my theory and an alternative stock that could have more room to run.

Shopify stock valuation

Much of Shopify's performance has been driven by "multiple expansion." In other words, investors are a lot more enthusiastic about the company now and are willing to pay much higher prices for a piece, pushing Shopify's price-to-sales ratio up to 47.6.

Meanwhile, the team has already warned that the growth rates ahead will be much lower than the rate they experienced in 2020. Essentially, the stock is trading based on expectations that are unlikely to be met. That weakens the investment thesis.

An alternative

Goodfood Market ([TSX:FOOD](#)) is a viable alternative, in my opinion. That's primarily because it's a smaller player in a much larger (and more ripe for disruption) market.

The stock quadrupled in value last year. This year, the stock has come under immense pressure going by the 15% slide year to date. The online grocer's fortunes have taken a significant hit as the [reopening](#) of retail locations has triggered a slowdown in the active subscriber growth.

The recent underperformance might as well have presented an opportunity to buy the stock on the cheap. The growing shift toward online grocery services and increased spending on e-commerce presents unique growth opportunities for Goodfood Market. In the most recent quarter, the company

delivered a 24% year-over-year increase in revenues to \$108 million as gross profits surged 51%.

The company has already embarked on an ambitious plan to strengthen its competitive edge by expanding its offerings and reducing delivery time. The efforts could trigger a significant increase in subscriber numbers. Additionally, increased investments in [automation](#) could go a long way in accelerating the company's growth trajectory.

Valuation

Since Goodfood went public in 2017, it has returned more than 300%, underscoring its impressive track record. Favourable industry trends and increased adoption of online grocery services are some of the factors that affirm the company's long-term prospects despite the recent tailwinds.

Goodfood should be an exciting pick for investors looking to play the long-term game. Compared to industry heavyweights like Shopify, the stock is relatively cheap as it is trading with a price-to-sales multiple of 2.02 compared to 47.6 for Shopify.

Bottom line

Shopify is Canada's best tech stock and is likely to keep growing in the years ahead. However, the stock has priced in all these growth expectations. Investors should look for underrated opportunities like Goodfood Market for better potential returns.

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2. TSX:FOOD (Goodfood Market)
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