



Is it Too Late to Buy Shopify (TSX:SHOP) Stock?

Description

"Is it too late to buy?"

This is a natural question to ask yourself when it comes to a stock like **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)).

On the one hand, you can't look at Shopify's historical returns and not think you need this stock in your portfolio ASAP. On the other hand, it's hard not to wonder if the best is behind us. At this rate, it would take only two-and-a-half more years for SHOP to reach a trillion-dollar valuation if it keeps up its past annualized rate of return (about 109%). Shopify is definitely a beast, but could it really be worth a trillion dollars in just a few short years? In this article, I'll explore this and other questions and attempt to determine whether SHOP remains a buy at today's prices.

Shopify continues to see strong growth

One argument in favour of SHOP still being a buy at today's prices is its growth. Some standout growth metrics for SHOP include the following:

- 57% revenue growth in the [most recent quarter](#).
- 110% revenue growth in the quarter before that.
- 86% revenue growth in 2020, including 95% growth in the final three months of the year.
- Positive EPS for both 2021 quarters reported (GAAP and adjusted).
- 65% annualized growth in revenue over the last five years.

Put simply, we're seeing phenomenal growth here. For the trailing 12-month period, SHOP did \$3.8 billion in revenue. If that continues growing at 65% year over year, then we get to \$10 billion in just two years, \$28 billion in four years, and more than \$100 billion in a mere seven years. It's phenomenal growth. And yes, the \$100 billion in annual revenue projected here is pretty similar to the numbers the big U.S. tech companies were putting out when they were worth \$1 trillion. For example, **Facebook's** 2020 revenue was about \$86 billion.

SHOP's valuation is extremely steep

As we've seen already, Shopify is a high-growth tech stock with the potential to become a FAANG-tier behemoth in just a few short years. What's not to love?

Well, one thing is, the kinds of growth just projected aren't guaranteed. And if this magnitude of growth does NOT materialize, then SHOP is just a really expensive stock. Consider these valuation metrics:

- Adjusted P/E: 222.
- GAAP P/E: 80.
- Price/sales: 49.
- Price/book: 20.
- Price/cash flow: 360.

Those are just absolutely nosebleed metrics. Shopify is easily one of the [most expensive stocks in the world](#) relative to fundamentals, and there is no sign of this situation abating anytime soon. Of course, enough growth can easily justify even these stratospheric value metrics. Just look at **Amazon**. But the amount of growth required is truly extreme. Pretty much, investors had better hope that SHOP keeps growing at 50% or more for years to come. Even consistent 20% annualized earnings growth would look inadequate against the multiples shown above.

Foolish takeaway

For Shopify investors, the bottom line is this: this is a high-growth stock that has a bright future ahead of it.

As a company, it will continue to grow and thrive. As a stock, if bought today, it could easily encounter some hiccups, because it trades at a very expensive valuation. That comes with the territory though. You pay a premium for lightning-quick growth.

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