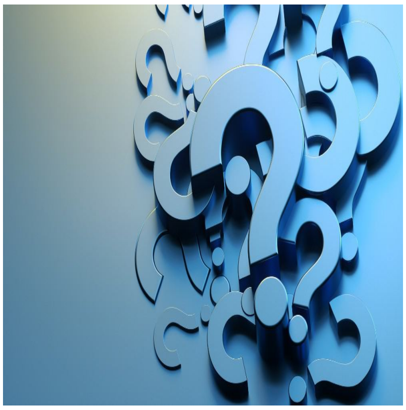

Shopify (TSX:SHOP)(NYSE:SHOP): A Good Time to Buy?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock simply refuses to show any signs of weakness. Over the past five years, the stock has returned more than 5,000%, with the momentum gathering pace in recent months. In the first half of this year, the stock climbed 29%, extending its epic rally further.

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However, it may be time for investors to take a step back and ask if the stock price has finally overshot fundamentals. Is growth ahead likely to be slower? If so, what is the justified valuation for Shopify stock right now? Here's a closer look.

Earnings and revenue growth

Shopify stock's impressive performance stems from the growing belief that the company is inching closer to consistent profitability. Accelerating revenue growth has been the central theme in recent months, and Shopify has become the go-to place for merchants looking to join the e-commerce revolution.

Last year alone, revenues were up 86%. The growth accelerated in Q1, with the company delivering a 110% increase in revenues to $988.6 million. Adjusted net income increased more than elevenfold to $254.1 million. With more than $7.8 billion in cash on the balance sheet, the company remains well-positioned to pursue new growth opportunities.

Valuation

Powered by solid revenue growth and an attractive business model due to the ongoing e-commerce revolution, Shopify is an attractive high growth play. With a price-to-sales multiple of 61, the stock is not cheap by any means. That valuation could have been justified if Shopify's growth remained elevated. However, even the management team has lowered their near-term expectations and warned that growth rates could slow down.

The reopening of physical retail stores and pullback in government stimulus measures could have a noticeable impact on Shopify's top line. Not to mention the fact that triple-digit growth is much more challenging when the company is worth $240 billion. It's simply the law of large numbers.

However, Shopify has proven itself as a worthy competitor to **Amazon**. The company's unique business model probably gives it an edge over this juggernaut. That means the total addressable market size for Shopify is *at least* Amazon's current market capitalization or the size of global online retail. In other words, Shopify has a non-zero chance of being Canada's first trillion-dollar company.

The current valuation shouldn't deter you from being part of that journey.

Bottom line

Shopify stock's epic run last year is going to be difficult to replicate. Even the management team has lowered growth forecasts and tried to lower investor expectations. The current valuation is slightly higher than what I would call "fair."

However, Shopify is still on a journey to dominate global online retail. It has a chance to become Canada's first trillion-dollar tech company. The current valuation shouldn't prevent shareholders or potential investors from missing out in the long term. I'd say Shopify stock is the ultimate buy-and-hold opportunity.

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