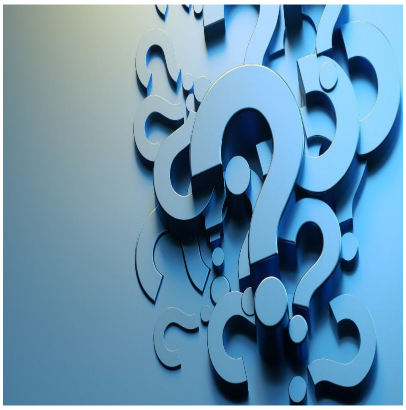

Shopify vs. Amazon: Which E-Commerce Stock Is a Better Buy?

Description

In the last decade, the shift toward online shopping has accelerated at a rapid pace. This trend gained further momentum all over the world amid COVID-19 as countries imposed lockdowns. It meant businesses had to establish an online presence to stay relevant and consumer spending experienced a shift due to limited shopping options.

The transition towards online shopping is expected to continue in the future as well, making technology stocks such as **Shopify** (TSX:SHOP)(NYSE:SHOP) and **Amazon** (AMZN) top bets right now. But which stock is a better buy?

Shopify stock has gained 5,800% since IPO

Shopify went public in mid-2015 and the stock has since gained an astonishing 5,800% in just over six years. It is now Canada's largest company in terms of market cap, valued at $229.6 billion. The company's software allows merchants to manage their businesses across various channels by integrating transactions from physical retail locations, custom websites, and online marketplaces into a single POS or point-of-sale system. It also provides merchants with additional services that include payment processing, financing, and shipping.

At the end of Q2, Shopify had more than 1.7 million merchants on its platform and the company's suite of software solutions has also attracted Fortune 500 companies such as **Unilever** and **Pepsi**.

In the last three years, Shopify sales have risen at an annual rate of 65%. In the last 12 months, Shopify reported revenue of US$3.9 billion, up from just US$853.6 million in the same period in 2018. This rapid expansion in the top-line allowed the tech giant to report a free cash flow of US$507 million in the last year, compared to the negative figure of US$31.5 million three years ago.

Shopify ended the June quarter with close to US$8 billion in cash compared to just US$910 million in long-term debt. The company is already profitable and has enough liquidity to weather economic recessions or grow on the back of accretive acquisitions.

The bull case for Amazon stock

Amazon is one of the largest companies in the world, valued at a market cap of US$1.6 trillion. While it generates a majority of sales via e-commerce, the company has a significant presence across several business verticals that include cloud computing, online streaming, and digital advertising. In fact, Amazon Web Services grew revenue by 37% year over year to US$14.8 billion in Q2 of 2021.

AMZN stock is up just 4.7% in the last 12 months but it has been a massive wealth creator for long-term investors, returning over 1,300% in cumulative returns since October 2011. Despite its massive size, Amazon grew sales by 27% year over year to US$113 billion in Q2. Wall Street expects the company to increase revenue by 23.3% to US$476 billion in 2021 and by 18.3% to US$563 billion in 2022. Comparatively, its earnings per share are also forecast to expand at an annual rate of 37% in the next five years.

AMZN stock is valued at a forward price to earnings multiple of 45, which is higher than the **S&P 500 Composite Index** average of 34. But it's also growing at a faster rate compared to the market and enjoys leadership positions across business segments.

The Foolish takeaway

Both Shopify and Amazon are well-positioned to derive market-beating gains in the long term. But Amazon's diversified business and significantly lower valuation make it a better stock to buy right now.

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araghunath