



Shopify (TSX:SHOP): Time to Get Greedy

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock is down significantly from its all-time high. At \$1,746, it's down nearly 15% from its peak price of \$2,068. Many factors accumulated to bring this about. On the one hand, we had a number of scare stories about **Facebook** in the news, leading to weakening sentiment toward tech stocks as a whole. Then later, we had **Snap** deliver unimpressive earnings, which seemed to confirm the issues the Facebook selloff got investors worried about — IoT tracking, political controversy, etc.

These news items led tech stocks to collectively sell off. The thing is, though, that e-commerce stocks like Shopify are mostly immune to them on a fundamental level. Almost all of the issues investors worried about last week mostly affected advertisers. IoT tracking rules and fears about Facebook's content policy shouldn't affect an e-commerce firm like Shopify too much. The IoT thing might affect Shopify's vendors that advertise on Facebook, but the effect would be smaller than on a company whose entire business is based on advertising.

Given this, it's looking like Shopify sold off on factors that will prove not to have affected it. That arguably makes the stock a buy at today's prices. In this article, I will look at several factors impacting Shopify stock today, so you can make an informed decision about buying and/or selling it.

Shopify is historically cheap

One thing that SHOP's selloff has done is made the stock historically cheap. Currently, SHOP trades at 44 times sales, 37 times estimated forward sales, and 73 times GAAP earnings. These multiples might not look low to you, but remember that SHOP has in the past traded for anywhere up to 60 times sales. The current multiples are the lowest they have been in years, yet the [revenue-growth rates](#) (56% in the most recent quarter and above 90% in the four quarters before that) are the highest seen since SHOP went public.

Still hasn't penetrated the total addressable market

Another factor arguing that SHOP may be a bargain now is its potential for future growth. According to **Oppenheimer**, Shopify's total addressable market (TAM) will be [\\$255 billion a year by 2025](#). Yet SHOP is only doing approximately \$3 billion to \$4 billion in revenue (\$3 billion for 2020, \$4 billion based on the 2021 quarters reported so far). If Shopify's TAM really is \$255 billion, then it can grow in leaps and bounds from here. And, in fact, Oppenheimer's assessment is probably conservative.

Amazon is already doing well over \$300 billion a year in sales. That's not a perfect comparison because Amazon sells inventory while Shopify doesn't, but it goes to show that the biggest player in e-commerce is doing far more revenue than what Oppenheimer thinks Shopify's TAM is. So, it's quite possible that Shopify's revenue can go much higher than where it is now.

Foolish takeaway

It might sound strange to call a stock trading at 44 times sales cheap, but Shopify is indeed cheap now at least relative to itself in the past. The company's revenue is growing faster than ever, yet its multiples have shrunk. That doesn't guarantee that this latest selloff will make for a good buy, but it is certain that the stock is more attractive today than it was for much of this year.

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