Shopify Shrugs off Earnings Miss and Surges 7%: What Should You Do Now?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) released its Q3 results on Thursday. Its latest quarterly earnings missed analysts' estimates by a wide margin. As a result, SHOP stock opened lower yesterday morning. But it surprisingly turned positive later in the session and rallied as much as 10% for the day. The stock ended the session with about 7% day gains at $1,800.04 per share.

Before I discuss what investors should do now, let's take a closer look at its latest financials to find out what could have driven the big rally in Shopify stock despite its Q3 miss.

Shopify's Q3 earnings miss

In the September quarter, Shopify reported revenue of US$1.12 billion — up 46.4% year-over-year and also slightly higher compared to the previous quarter. But its revenue for the quarter was about 1% lower compared to analysts' estimates.

The Canadian e-commerce giants reported adjusted earnings of US$0.81 per share in the third quarter — down 28.3% from a year ago. Its earnings figures were also fell 25.7% short of Street analysts' expectation of US$1.09 per share.

But here are positive factors…

It's important to note that Shopify has consistently crashed analysts' earnings and revenue estimates for years before Q3 2021. The COVID-19 related shutdowns forced many businesses to build or improve their online presence. This digital shift massively accelerated Shopify's business growth last year. However, no business or consumer trend stays forever. It was obvious that Shopify's financial growth will normalize as economies reopen in the post-pandemic world. And that's exactly what happened with the company in the last quarter.

To give you a quick example, Shopify's revenue in the third quarter of 2020 rose by 96.5% YoY, and its adjusted earnings surged 528% for the quarter. Given these extraordinary financial growth figures during the COVID-phase, it won't be fair to compare it to its Q3 2021 revenue and earnings with Q3 2020. That said, the company still managed to post a solid 46.4% YoY revenue growth in the last quarter. I wouldn't consider this growth rate low and worrisome by any means.

No matter what analysts were estimating for Shopify's third-quarter revenue and earnings, investors seemingly were expecting its financial growth to normalize in Q3. This justifies why SHOP stock staged a massive rally despite its Q3 earnings miss.

What should investors do now?

While Shopify just missed analysts' quarterly estimates for the first time in several years, its business clearly is continuing to grow at a fast pace. To give you an idea, here's what the company stated in its latest earnings report: "It took 15 years for our merchants to get to $200 billion in cumulative GMV, and just 16 months to double that to $400 billion."

Overall, Shopify's financial growth story hasn't ended yet. Although it might not be the best time to buy SHOP stock right away, there's no key reason to be bearish on it either. So, if you already own the stock, you may want to continue holding it for the long term. While Shopify may not post extraordinarily high financial growth in the near term (like 2020), it still continues to be one of the best **TSX** stocks to hold for the long term.

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Date
2025/08/24
Date Created
2021/10/29
Author
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