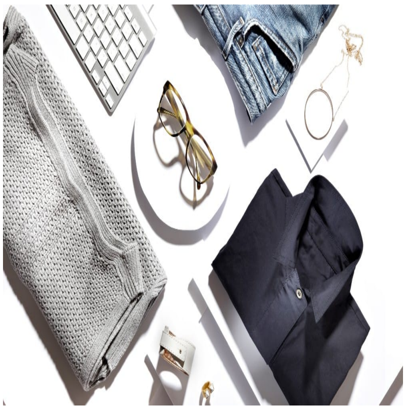

# Shopify (TSX:SHOP) Is Overvalued: Here’s Why it’s Still a Buy

### Description

One of the most nagging feelings in life comes when you pay more for something than what it is actually worth. We’ve all been there, whether it was for a used sports car, a fancy dinner at a high-end restaurant, or a bad vacation getaway. It leaves us wondering, “why did we bother paying so much?”



It turns out that stocks are no exception to this rule. As investors, we often succumb to emotions and chase performance, buying the latest hot stock at the peak and then wondering where our money went a few months later when it fizzles out. The stock market is full of these rocket ship stocks that soar and then sometimes underperform for years on end, if not outright get delisted.

## The Shopify bull run

**Shopify** (TSX:SHOP)(NYSE:SHOP) is one of these rocket ships. After soaring an incredible 3,280.07% over the last five years, including 36% YTD, many Canadian investors are wondering if the magic is now over. Currently, the stock is trading at $1,898.00, around 15% off its 52-week high of $2,228.73. As a result of its large increase in share price over the last half decade, Shopify is now the leading stock by market capitalization in the **S&P/TSX Composite Index** at $195.93 billion and is more volatile than the index with a beta of 1.47.

## Is Shopify overvalued?

From a valuation standpoint, Shopify looks very expensive. It currently trades with a P/E of 56.68 and a forward P/E of 226.88, which are incredibly high, even for the tech sector. A P/B of 16.72, P/S of 46.54, and a P/FCF of 427.71 add to this sense of overvaluation. These metrics may indicate that expectations of future growth have already been baked into the current share price. Moving forward, investors may not be anticipating the same eye-popping 10 times returns that Shopify delivered over the last five years and could move their capital elsewhere.

## Shopify is still a great company at any price

Despite these indicators of overvaluation, I still think Shopify has room to grow due to its solid fundamentals. The business boasts some of the best financial ratios out there, with a ROA of 30.90%, ROE of 36.80%, gross margin of 54.50%, long-term debt/equity ratio of 0.08, and a current ratio of 14. Shopify has consistently smashed analyst revenue and EPS estimates, being able to execute immensely well on their strategic plan. I foresee this company delivering continued surprise growth over the years, as it continues to pivot its product and market strategy to stay competitive with the rest of their industry.

## The Foolish takeaway

Hunting for a undervalued stock can be difficult, and there are few hard-and-set rules for finding great picks at a bargain price. Investors should familiarize themselves with a variety of financial ratios, understand different valuation methods, do in-depth research on the company's service, products, and management, and stay up to date with the recent news. Understanding why a company stock is priced the way it is can help you take advantage of sudden dips not caused by a change in fundamentals, but rather by investor emotion and panic.



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