1 Growth Stock I'd Buy Over Shopify as Rates Rise

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock is an e-commerce giant that's never a good idea to bet against. Over the past few years, the giant has risen to the very top of the Canadian stock market. Undoubtedly, it's a force to be reckoned with, and I think that it will stay on top of the TSX Index, as Canada's most valuable firm.

Why?

It has a legendary founder-led management team that knows how to pivot, not only to keep growth alive, but to truly innovate and create value for its customers. Shareholder value creation is just an after-effect. Although Shopify stock will likely continue marching higher over the next five to 10 years, I think that, over the near to medium term, that investors should be careful entering the name. It's a fantastic company. There's no doubt about that. My concern with Shopify is the valuation and the stage that seems to be turned against the highest-growth stocks with price to revenues that are in the high double digits.

Shopify: Wonderful company but a suspect valuation in the face of higher interest rates

Now, Shopify is worth a massive premium. That much is clear. That said, just how much of a premium it should have in the face of a higher interest rate environment is the million-dollar question. With high-growth names taking a nosedive across the board going into the holiday season, I'd argue that there's no need for investors to rush into the most battered names — notably, Shopify stock on this side of the border.

Investors are bracing themselves for higher rates, with the Fed poised to hike three times in 2022. As central banks try to find the right balance between fighting economic stalling from surging Omicron COVID cases and high levels of inflation, there's a chance for surprises on both fronts. Currently, three rate hikes are factored in. But could more be needed to get the inflation genie back into the bottle? That's possible, especially after the Omicron wave blows over in the coming quarters. Higher rates are bad news for red-hot growth stocks like Shopify. And in this piece, we'll have a look at just one of the names that could thrive in the face of higher rates and persistent COVID.

Restaurant Brands International

Restaurant Brands International (TSX:QSR)(NYSE:QSR) gets a weak grade for its performance through the pandemic thus far. Indeed, drive-thru infrastructure and mobile initiatives weren't at par for some of the firm's brands. Although QSR came up short, especially versus its fast-food peers, it has put its money towards initiatives to improve itself and make itself more pandemic resilient. Nobody knows when COVID will end. That's why such investments in modernization and adaption, even after the fact, are important. I think investors are discounting such efforts, as they look to make their way into the results steadily over the next year or so.

Great brands will shine through in the end. And with a fourth brand, Firehouse Subs, to beef up growth, I think investors are getting a massive bargain here. Unlike most other growth stocks, Restaurant Brands is profitable. The path behind it suggests the growth has faded. But looking ahead, the stage looks set for double-digit top-line growth, even if the pandemic doesn't go endemic anytime soon.

The bottom line

As rates rise, price to earnings will matter much more. A name like QSR can stand to rally, as a name like Shopify contracts in a way such that its hefty valuation metrics compress accordingly.

Profitable growth and improved pandemic-resilience characteristics make QSR stock a great buy in my books. The valuation is also absurdly low, discounting the long-term expansion potential behind some of the firm's legendary chains.

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