Why Shopify Stock Rose 21% in 2021

Description

Canadian tech stocks have been going through a sharp correction lately. In December, investors' speculations about the U.S. Federal Reserve's latest moves triggered tech sector-wide correction, driving the shares of most tech companies across North America lower. In this article, we'll look at how the largest Canadian tech firm, **Shopify** (TSX:SHOP)(NYSE:SHOP), traded in 2021 and find out whether it's still worth buying in 2022.

Shopify stock

In 2021, Shopify stock rose by 21.2% — slightly underperforming the broader market, as the **TSX Composite Index** yielded 21.7% positive returns. While the stock managed to post double-digit gains last year, it was its worst yearly performance so far. Notably, SHOP stock delivered outstandingly high over 170% positive returns each in 2019 and 2020.

Key factors from 2021

In order to understand why 2021 proved to be Shopify stock's worst year so far, we need to look at its financial growth trends in the last couple of years. In 2020, COVID-19-related restrictions badly affected operations of physical stores, accelerating their shift to e-commerce. This shift created strong demand for Shopify's easy-to-use commerce platform and boosted its financial growth.

As a result, Shopify posted a record revenue growth of 86% YoY (year over year) in 2020 with the help of a solid 96% increase in its gross merchandise volume. The e-commerce giant's adjusted earnings for the year jumped by 1,227% to $3.98 per share. Similarly, its 2020 adjusted net profit margin massively expanded to 16.8% from just 2.2% in the previous year. This sudden massive financial growth triggered a buying spree in SHOP stock, helping it post 178.4% gains in 2020.

While the global pandemic skyrocketed the demand for Shopify's services unexpectedly, it was clear that this high-growth trend won't sustain in the post-pandemic world, as the restrictions on physical stores start easing. This is one of the reasons why Shopify's management, on many occasions in

2020, warned investors about an expected slowdown in its financial growth. And that's exactly what happened in 2021 — especially in the second half of the year.

In Q1 2021, Shopify's total revenue rose by a record 110% YoY to US$988.7 million. Since then, its sales growth has consistently been declining. In the latest reported quarter ended in September 2021, its total revenue rose by 46.4% YoY, showcasing a sharp decline in its growth rate. This slowing financial growth rate could be the primary reason why SHOP stock didn't perform as well last year as in the past. Apart from these company-specific factors, a tech sector-wide correction in the second half of 2021 also pressurized the stock.

What to expect in 2022

Despite this expected slowdown amid easing pandemic-related restrictions, Shopify is still likely to continue posting solid double-digit growth in its sales as well as earnings in the medium term with solid profitability. Moreover, its recent financial growth trends still look much better and stable than most of its peers. These are the reasons why a expect SHOP stock to outperform the broader market and most other tech stocks in the medium term, making it worth buying in 2022.

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jparashar