Why Shopify Stock Dived 17% Last Week

Description

What happened?

The shares of **Shopify** (TSX:SHOP)(NYSE:SHOP) tanked by 17% last week to $1,446 per share, starting the new year on a bearish note. With this, SHOP stock has erased more than 25% of its value in the last 25 sessions against a 2.1% rise in the **TSX Composite Index** during the same period.

So what?

Last week, there was no company-specific news that could be blamed for a massive drop in SHOP stock. In fact, these losses are mainly a result of a recent big selloff in the technology sector across North America. That's one of the reasons why its home market peers like **Lightspeed** and **Nuvei** have also seen a big correction in the last couple of weeks.

The ongoing tech sector-wide correction has mainly affected stocks with high valuation multiples, including Shopify. This is the reason why SHOP stock ended 2021 with only 21.2% positive returns — its worst yearly performance since it went public in 2015. Previously in 2019 and 2020, the e-commerce giant's accelerating financial growth drove a massive rally in the stock. Notably, it rose by about 174% in 2019, and it posted even slightly higher 178% gains in 2020.

Investors' continued speculations about the tightening monetary policy in the United States intensified the recent drop in high-flying tech stocks — especially after the release of the latest FOMC meeting minutes on Wednesday last week. These external negative factors seemingly prompted investors to book profits amid their fears about a possible sharper correction in the tech sector later this year, taking the SHOP stock price lower.

Now what?

After reporting a 47% year-over-year rise in its total revenue in 2019, the pandemic-driven demand and favourable business environment for its services gave a big push to Shopify's sales growth in 2020. As a result, its total revenue in 2020 jumped by 86% from a year ago to US$2.9 billion.

While the company is yet to release its Q4 2021 results, Street analysts expect its revenue growth rate for full-year 2021 to be around 56%. This expectation shows a sharp drop in its sales growth in the last year. But it shouldn't be surprising for its investors, as Shopify's management was already expecting this slowdown in the post-pandemic world. Also, a more than 50% year-over-year increase in top-line still reflects a solid growth trend for a tech company, which is much higher than most other companies. That's one reason why the ongoing correction in the tech stocks like Shopify could create an opportunity for long-term growth investors to buy it cheap.

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jparashar