



Shopify (TSX:SHOP): Why I Finally Bought the Dip

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) is a stock I have a long history with. I began covering it back when I started writing for the Motley Fool in 2018. At the time, I thought it was a pretty good growth stock, and my articles on it usually had a positive tone. I continued writing bullish articles about the stock for years, but I never actually bought it. Eventually, it occurred to me that I knew this stock was good, but I missed its run up to \$2,000 anyway.

Flash forward to Monday of this week. Tech stocks were selling off hard, and Shopify was no exception. Dipping as low as \$1,375, it fell 37% from its all-time high. Smelling an opportunity, I jumped in and grabbed a share.

Shopify is somewhat of an out-of-character play for me. I'm a value guy at heart; most of my stocks are value names like banks and "GARP" tech stocks. Shopify is definitely not a cheap stock. But it does have a lot of future potential. In this article, I will explore why I bought SHOP on the dip and where I see it going in the next few years.

Strong growth

The main thing SHOP has going for it right now is the same thing it has always had going for it: *growth*.

Shopify has never been the most profitable company on earth. As a young tech company, you wouldn't expect it to be. But its revenue growth has always been incredible. In its most recent quarter, revenue grew by 46%. It exceeded 90% for four consecutive quarters starting with Q2 2020. In general, the company has grown sales by about 50% annualized since going public. I wouldn't expect that kind of growth to continue going forward. Still, though, growth should be relatively strong.

In the most recent Black Friday/Cyber Monday weekend, SHOP [grew its GMV for the period by 23% year over year](#). That's down from the Black Friday growth observed in past years, but that's to be expected. 2020 was an unprecedented growth year for SHOP, with COVID lockdowns driving 86% full-year sales growth. Obviously, growth will decelerate the year following something like that. But SHOP is still growing much faster than the average company.

Now profitable

Another thing Shopify has going for it is the fact that it is [now profitable](#). For the longest time, SHOP was your typical post-IPO unicorn with piles of revenue growth and a vast user base but no profits. Not anymore! Thanks to the 2020 revenue surge, SHOP's sales finally eclipsed its costs, and it was able to post positive

- GAAP earnings;
- Adjusted earnings; and
- Operating cash flow.

The same feat was repeated in 2021, with positive growth in all of the metrics listed above. At this point, Shopify is a profitable, well-established e-commerce enterprise — and it's still growing very fast. Its stock is indeed expensive, but the company now has a foundation to catch up with its valuation at a rapid pace.

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