



## Shopify Is Down 49% From All-Time Highs: Should You Buy?

### Description

**Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) is taking a beating yet again today. Down 8% as of this writing, it is currently down 49% from its all-time-high of \$2,095. To date, SHOP remains way up from its IPO price. It is, however, far cheaper than it has been in recent memory. In this article, I will explore whether Shopify stock is a buy after its nearly 50% drawdown.

### Earnings coming up

A big thing to keep in mind when looking at SHOP is that it is releasing earnings soon. Scheduled for February, the release will give us a sneak peek at how SHOP did in the pivotal Black Friday and Christmas shopping seasons. This is crucial information. Shopify is a pretty expensive stock, even after its massive selloff. Trading at 27 times sales, it's far from a value play. So, we're going to want these earnings to be good.

Will they be good?

One clue we can look at is Black Friday/Cyber Monday sales. Shopify already released its GMV numbers for the pivotal shopping holiday. Its merchants did [\\$6.3 billion in GMV](#), up 23% year over year. That's not too bad, but it does seem to imply that revenue growth decelerated for the fourth quarter. In past years, SHOP was posting Black Friday GMV well in excess of 50%. This year, it was half that. So, we would expect SHOP's Q4 revenue growth to be far lower than the previous years.

This is a pretty big issue for Shopify. Deceleration has always been the big concern with this stock. Shopify posted 86% revenue growth in 2020 thanks to the pandemic. The lockdowns, which hurt traditional retailers, [actually helped Shopify](#), because they led to more online shopping. For 2021, Shopify has to beat a base period in which those lockdowns were already in the picture. This has led some to claim that in 2020, SHOP merely "brought growth forward" instead of expanding its market. If that's the case, then there could be some serious deceleration in the picture in the Q4 earnings release.

## Valuation

Another factor we need to look at is Shopify's valuation. While the stock has come down a lot, it still isn't cheap relative to fundamentals. For the trailing 12-month period, its multiples are as follows:

- P/E (adjusted): 141
- P/E (GAAP): 34
- Price/sales: 28
- Price/book: 10
- Price/operating cash flow: 240

These multiples are much lower than the multiples SHOP had in the past. At some points, this stock was trading for a whopping 60 times sales! It has gotten a lot cheaper since then. However, it is still basically an expensive stock. While the GAAP P/E ratio looks like it's not much higher than that of other tech stocks, keep in mind that SHOP's GAAP earnings include a lot of stock price gains. If you go off just cash flows, you get a 240 multiple. That's still extremely high.

## A final note

I have just one final note about SHOP stock.

I actually bought it a few weeks ago on the dip and sold it a few days later. While I liked the stock's sale price, I couldn't convince myself that its strong growth was likely to continue long term. For this reason, I backed out. If the selloff continues, I may buy back in. I think \$800 or so is a price at which I'd become interested again.

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