Can Shopify Recover to New All-time Highs in 2022?

Description

With more than 1.7 million merchants on its platform, **Shopify** (TSX:SHOP)(NYSE:SHOP) is undoubtedly a core platform for SMBs. The company's software-as-a-service platform assists merchants in managing their businesses across both physical and digital storefronts — including advertising on TikTok.

Quite a bit has been going on with this e-commerce software behemoth lately. Unfortunately, most of the discussion around Shopify has been tied to its declining share price. Shares of SHOP stock have now declined well more than 50% from their peak and are continuing lower.

Is it possible for Shopify to rebound to new all-time highs this year? Let's discuss.

Market headwinds are strong for Shopify

Recently de-throned as the largest company in Canada by market capitalization, Shopify has lost its lustre as a top-notch growth stock. Like many other Canadian tech stocks before it, Shopify is seeing depressed sentiment bleed into a valuation collapse.

Now, most of this recent decline isn't Shopify's fault. Like other high-growth tech stocks, the market has sold off in dramatic fashion due to the potential for rising interest rates. When interest rates rise, so too does the discount rate for stocks. For companies like Shopify with more of their future earnings located further out, that's not a good thing.

Accordingly, investors have rotated out of their big tech winners such as Shopify into more defensive stocks. This rotation appears to be strong, with momentum firmly moving away from companies like Shopify.

Now, there's a reason why Shopify had so much momentum to begin with. This is a company that has blown away growth expectations, become profitable, and now trades at what many would consider a reasonably valuation multiple. However, to put Shopify in line with the broader market, a further decline could be in store. Accordingly, many investors don't want to stick around to see if this valuation compression will take place or not.

But this stock could still be a buying opportunity

Given the recent beating Shopify has received because of the recent tech selloff, some investors may be inclined to step into Shopify. After all, this company's valuation of around 30 times earnings really doesn't jive with its growth rate, which is well in excess of 30%.

Any stock with a price-earnings-to-growth (PEG) ratio under one is one growth investors should get excited about. Analysts believe that Shopify could increase its earnings by well in revenue of 30% per year for the years to come. While this is a steep downgrade from past growth rates, this does make Shopify a stock to consider, particularly if the company can increase its earnings at the same rate.

Bottom line

Shopify's dominance as an e-commerce platform provider should not be ignored. This is a company with an impressive growth history, and one that's proven itself as a winner.

This recent dip is material and provides a buying opportunity for those who think this company can continue to grow at an incredible clip. Perhaps such a buying opportunity won't come around again. Time will tell.

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