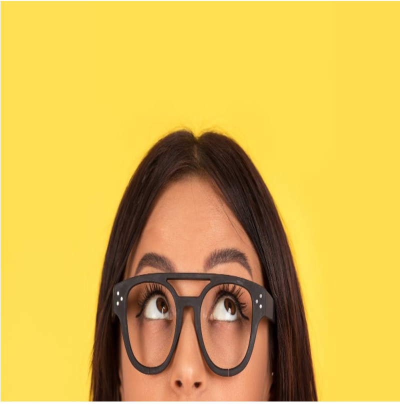

Could Shopify Stock Surge After its Q4 Earnings?

Description

As most tech stocks remain highly volatile this year, some popular companies like **Shopify** (TSX:SHOP)(NYSE:SHOP) have seen a big correction. Notably, it's currently the worst-performing stock on the main **TSX** index, as it trades with about 37% year-to-date losses at the time of writing. Shopify is gearing up to announce its fourth-quarter results on February 16. While SHOP stock hasn't yet shown any major signs of a reversal, its stock might see an upside reversal in the coming weeks. Before I explain why I expect SHOP stock to bounce back in the near term, let's take a closer look at some key reasons that have driven it downward this year so far.

Shopify stock continues to fall

In 2021, Shopify stock rose by 21.2%. Rising inflation raised the possibility of a tighter monetary policy in late 2021, triggering a selloff in most high-flying tech stocks, including Shopify. With this, the stock slightly underperformed the broader market and posted its lowest yearly gains ever.

At the same time, worries about most tech stocks being overvalued prompted investors to trim their exposure to the tech sector, intensifying the sector-wide selloff further. These factors have been the main reason for SHOP stock's dismal performance lately.

Why SHOP stock could recover soon

As I mentioned above, Shopify will report its December quarter results next Wednesday. While I don't expect the company to post surprising improvements in its financial growth trend, I still find Street analysts' consensus estimates for its earnings quite conservative.

Analysts expect Shopify's earnings to be around $1.24 per share in Q4 — down 21.5% from a year ago. Given a continued strength in demand for e-commerce services across North America due to the prolonged pandemic, it might not be very difficult for the Canadian tech company to beat theseearnings estimates by a wide margin. That's the first reason why I expect SHOP stock to see ahandsome recovery in the coming weeks.

In January, Shopify announced its partnership with the Chinese e-commerce company **JD.com** to make it easier for its U.S. merchants to sell their products in China. I expect this move to make Shopify's online platform more attractive for a large number of merchants in the U.S. market who want to expand their market reach. Despite this positive announcement, Shopify stock fell by nearly 30% in January and has extended its losses by another 10% in February so far due to the sector-wide meltdown. In such a scenario, its stock will need a fundamental trigger for a reversal, and its upcoming results could act like one if they exceed expectations.

These are some of the key reasons why I recommend long-term investors to keep a close eye on SHOP stock this month and buy it as soon as they spot an early sign of a reversal. Despite a sharp drop in this top Canadian growth stock lately, its long-term fundamental growth outlook still remains very strong, which could help it yield outstanding returns.

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jparashar