



Shopify Stock: What's in the Cards for 2022?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has been crushed amid the tech selloff, losing over 50% of its value in a matter of months. Now at around \$1,000 per share, SHOP stock is struggling to put in a bottom. As one of Canada's favourite growth stories, many are asking themselves if the recent drop is buyable or if it's the start of a much larger drawdown, perhaps towards pre-pandemic levels.

Indeed, surrendering all of the pandemic gains is not as far-fetched as it seems. Many companies that blasted off in 2020 are now back to where they were before their epic rallies kicked off. Indeed, **Peloton** is just one of many pandemic winners that's been in a world of pain of late, plunging as low as 85%.

While Shopify's 50% drop may seem like the worst, I'd argue that a bear-case scenario could cause shares of SHOP to drop by another 50%. Indeed, investors have turned against high-multiple growth stocks. Shopify has one of the most attractive stories out there. But that's not going to cut it anymore. Investors want to see some earnings, and they're likely to be less willing to pay up hand over fist to get it.

SHOP stock: The 50% drop is already in

Shopify has a knack for continuously raising the bar on its growth. With a pathway towards sustained profitability, Shopify stock may very well have the worst behind it. That said, I think the multiple is way too rich, with expectations that are still unreasonable. In a rising-rate environment, investors are going to want that much more from the firm's quarterly earnings results. Indeed, Shopify dropped the ball in its latest result. If it's the first of many misses, Shopify stock could find itself in the club of pandemic winners that shed all of their pandemic gains.

Now, Shopify is a magnificent company. It's done incredibly well in its corner of e-commerce and has plenty of [growth levers](#) to pull to keep its 40-50% revenue growth rate alive. The real question is if investors can justify paying over 20 or 30 times sales for Shopify's incredible growth story. I'd argue that they're not, especially if rates rise quicker than expected and the tech sector continues to bleed out into year's end.

Shopify stock: When will it bottom?

As great a company as Shopify is, it's very unlikely to be spared from further wreckage if this [selloff](#) is far from over. That's why I'd much rather put shares of SHOP on a waitlist than attempt to catch the falling knife right here at the \$1,000 level. And unless you know specifics regarding the U.S. Federal Reserve's rate-hike schedule for 2022, I'd argue that attempting to catch a bottom in the fastest-falling speculative tech stocks is a foolish (that's a lower-case *f*) endeavour.

At this juncture, sell-side analysts seem ready to lower their price targets, and who can blame them? The stock has fallen so much, and the "growth at any price" trade seems all but over. Currently, the stock goes from 26.1 times sales, which is still too expensive, in my book. While Shopify may never be a value name, I think that the stock could easily trade for well under 20 times sales as the selloff persists. In the meantime, put in your own homework and take the current slate of analyst price targets with a fine grain of salt. Many may be overdue for further downgrades, especially as rates continue surging higher.

Bottom line on Shopify stock

Shopify's a great company with a legendary management team. But this just isn't the environment to pay a sky-high multiple for a firm that could be in the midst of a painful valuation reset. I think the best growth days are ahead for Shopify. But unless you can get a more modest multiple, I'd at least wait for the negative momentum to subside, unless you're feeling venturesome.

At the same time, I could be wrong. Inflation may have peaked, allowing the Fed to raise rates at a slower pace. Such a scenario could mean SHOP stock is overdue for a big upside move. Regardless, I remain on the sidelines, as the stakes are just too high for my liking.

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Author

joefrenette

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