



Why I Expect Shopify Stock to Lift-Off Tomorrow

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) will [announce](#) its fourth-quarter earnings before the market opens on Wednesday. While SHOP stock has seen a sharp selloff in the last few months, I expect its latest quarterly results to act as a catalyst and help its stock lift-off for a sharp long-term recovery. Before I highlight the main supporting factor for my expectations, let's take a quick look at Shopify's recent stock price movement and analysts' estimates for its Q4 earnings.

Shopify stock

At the time of writing, Shopify stock was trading with 38.1% year-to-date losses, making it the worst-performing **TSX Composite** component in 2022 so far. By comparison, the main Canadian stock market benchmark is trading with minor 0.6% gains. Meanwhile, Shopify's home market tech peers, like **Lightspeed Commerce** and **Nuvei**, have seen 28.3% and 3.8% value erosion this year, respectively.

Investors' speculations about more aggressive monetary policy tightening in the U.S. amid rising inflation have triggered a selloff in tech stocks. This recent tech sector-wide meltdown has badly affected some popular tech shares, including Shopify lately. As a result, SHOP stock has plunged by about 48% in the last three months.

Analysts' estimates for Shopify's Q4 earnings

The existing trend in [Shopify's earnings](#) looks impressive. The global pandemic-driven shutdowns encouraged more businesses to shift online, boosting the demand for Shopify's e-commerce services. The demand surge took the company's 2020 total revenue up by 85.6% to US\$2.93 billion. This massive sales growth also helped SHOP post adjusted earnings of US\$3.98 per share in 2020 — significantly higher compared to just US\$0.30 per share in the previous year.

As expected, Shopify's financial growth has slowed down a bit in the post-pandemic world. But it still remains much stronger than most of its peers. In the first three quarters of 2021 combined, its total

revenue rose by 66% year over year, taking its adjusted earnings up by 114%.

As of Tuesday, Street analysts are expecting Shopify to report total revenue of US\$1.38 billion in Q4 2021 — up nearly 36% from a year ago. However, its earnings for the quarter are expected to fall by 22% to US\$1.24 per share.

Could SHOP stock lift-off tomorrow?

Prior to Q3 2021, Shopify has consistently crushed Street analysts' quarterly earnings and revenue estimates for several years. And I expect the company's latest quarterly earnings to beat analysts' seemingly conservative estimates again.

The prolonged pandemic and new variants continue to hurt businesses from many industries with extended restrictions on physical stores. This factor is kept the demand for e-commerce services much higher in late 2021 than earlier expected. The stronger demand could help Shopify post much stronger than expected fourth-quarter financial results tomorrow. And if the company manages to pleasantly surprise analysts and its investors, its earnings event could act as a catalyst for its sharp recovery, I believe.

As you know, no one — including me — can tell you with absolute certainty whether or not the broader market trend would support its recovery in the near term, as several external factors could affect its stocks price movement. But I'm confident that its solid long-term growth outlook could help SHOP stock yield outstanding returns in the long term.

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