Shopify Stock: It's Not Time to Sell in Panic

Description

The shares of **Shopify** (TSX:SHOP)(NYSE:SHOP) continue to tumble this year. At the time of writing, its **TSX**-listed stock was hovering close to $900 per share with slightly less than 50% year-to-date losses. After the Canadian tech company reported better-than-expected quarterly results on Wednesday, SHOP stock crashed by 17%, posting its worst single-day losses.

Let's dig deeper into its latest quarterly results and find out why it might not be the time to sell Shopify stock in panic. But first, let's take a quick look at how Shopify has turned from the best-performing Canadian stock to the worst-performing Canadian stock in the last few years.

Shopify stock

Since its listing on the exchange, Shopify has impressed its investors by yielding outstandingly high positive returns each year. Between 2016 to 2020, SHOP stock surged by an astonishing 3,937%, from just $35.60 per share at the end of 2015 to $1,437.32 at the end of 2020.

As the COVID-related restrictions forced most physical stores to temporarily shut, the demand for e-commerce services suddenly spiked. Shopify, which was already on the strong growth path, massively benefitted from this demand. To give you an idea, its total revenue growth rate jumped to about 86% in 2020 compared to just 47% YoY in the previous year. As a result, the e-commerce company reported adjusted earnings of US$3.98 per share in 2020 against only US$0.30 per share in 2019. This enormous financial growth helped SHOP stock surge post its best yearly gains ever as it inched up by 178.4% in 2020.

Last year, Shopify stock yielded its lowest yearly returns of around 21% after a tech sector-wide selloff in late 2021 restricted its gains. The tech meltdown extended in 2022, badly affecting most high-flying stocks, including Shopify. As a result, SHOP stock is now hovering at its lowest level since May 2020.

SHOP stock fell 17% after Q4 results

On February 16, Shopify announced its Q4 and full-year 2021 results. The tech company's adjusted earnings for the year stood at US$6.41, showcasing a 61% positive growth from a year ago and also exceeding analysts' estimates. Its total revenue for the year jumped by nearly 57% to a record US$4.61 billion.

In its Q4 earnings report, Shopify also stated that it expects its revenue-growth rate in 2022 to be lower than in 2021. And this outlook has been one of the key arguments of analysts who cut their target prices on SHOP stock after its latest earnings event, triggering a big selloff.

Don't sell Shopify stock in panic

In the first place, I don't understand why these Street analysts, who are now seemingly getting worried about Shopify's slowing growth, were expecting its revenue growth to increase on a year-over-year basis in 2022. Clearly, the global pandemic caused a sudden increase in e-commerce demand, which massively accelerated Shopify's financial growth in 2020 and 2021. But I don't get why a sensible analyst would expect its revenue to continue rising at the same pace each year, even after the pandemic is over.

While Shopify's revenue growth rate might decline a bit in 2022, its long-term financial growth outlook remains strong amid the company's plans to focus on expanding its business in the international market. These factors could help SHOP stock recover fast in the coming months as soon as the ongoing tech sector-wide selloff is over. And you might not want to miss that recovery. That's why investors who want to sell SHOP stock in panic after seeing so many analysts cutting its target prices might want to think twice.

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