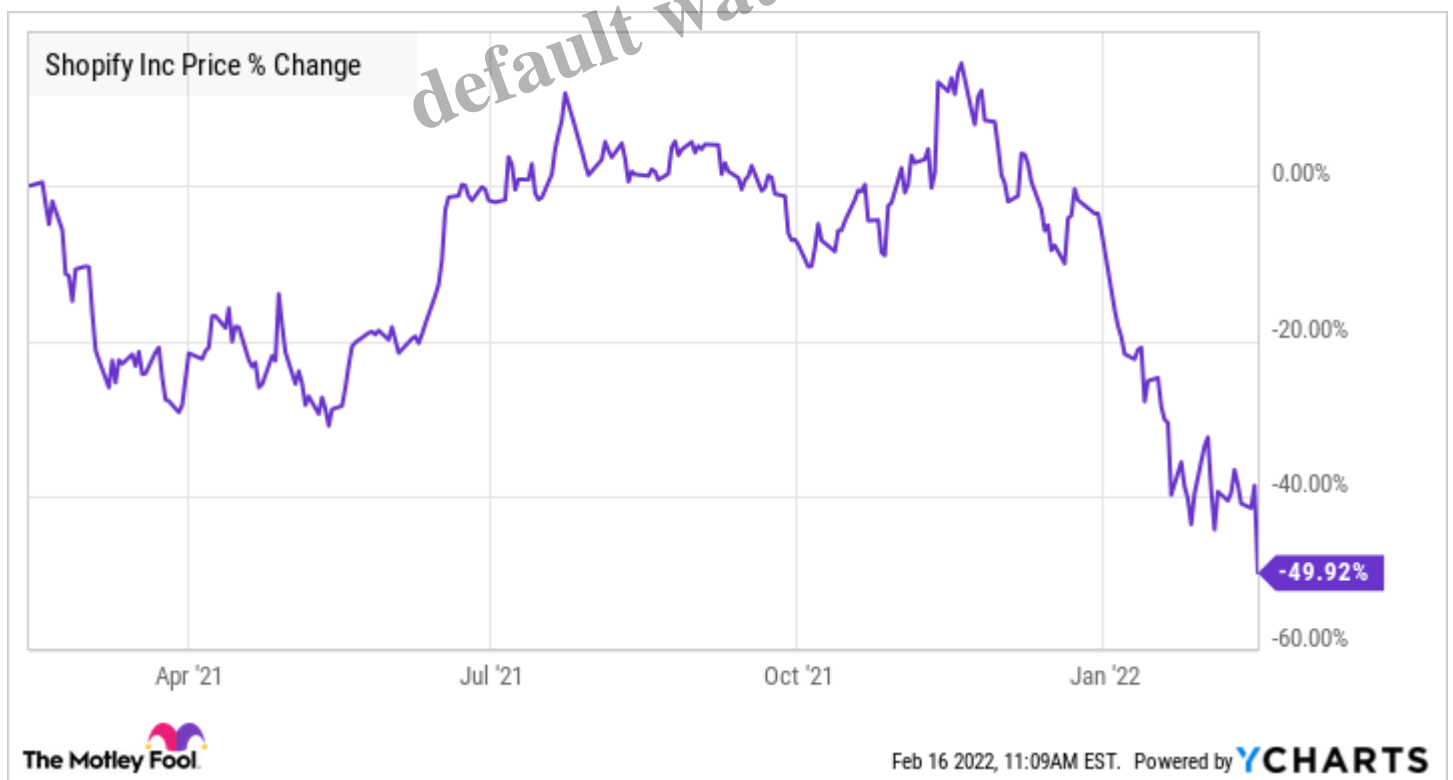




Shopify Stock: Is it a Buy After Falling 50%?

Description

As of writing, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has fallen 18% on Wednesday after reporting its fourth-quarter (Q4) and full-year 2021 results. The growth stock is now down 50% in the last 12 months — a turn of event that no one probably would have guessed a year ago. Were the results really that bad? Let's investigate!



SHOP data by YCharts

Shopify stock's 2021 results

Shopify stock's full-year results provide a bigger picture than its quarterly results. Revenue increased

by 57% to US\$4.6 billion. The revenue diversification was 71% in merchant solutions (up 62% to almost US\$3.3 billion) and 29% in subscription solutions (up 48% to US\$1.3 billion). This led to gross profit of nearly US\$2.5 billion and a gross margin improvement to 53.8% versus 52.6% in 2020. It follows that income from operations was US\$268.6 million, which was nearly three times that of 2020. The operating margin was 5.8% (up from 3.1% in 2020). Consequently, net income was US\$2.9 billion up from 2020's US\$319.5 million.

The tech stock's 2021 diluted earnings per share are US\$22.90. This means the stock is trading at a trailing-12-month price-to-earnings ratio (TTM P/E) of about 31.8. This is much cheaper than the TTM P/E of 100 in Q1 2021!

What do Shopify's Q4 results tell us?

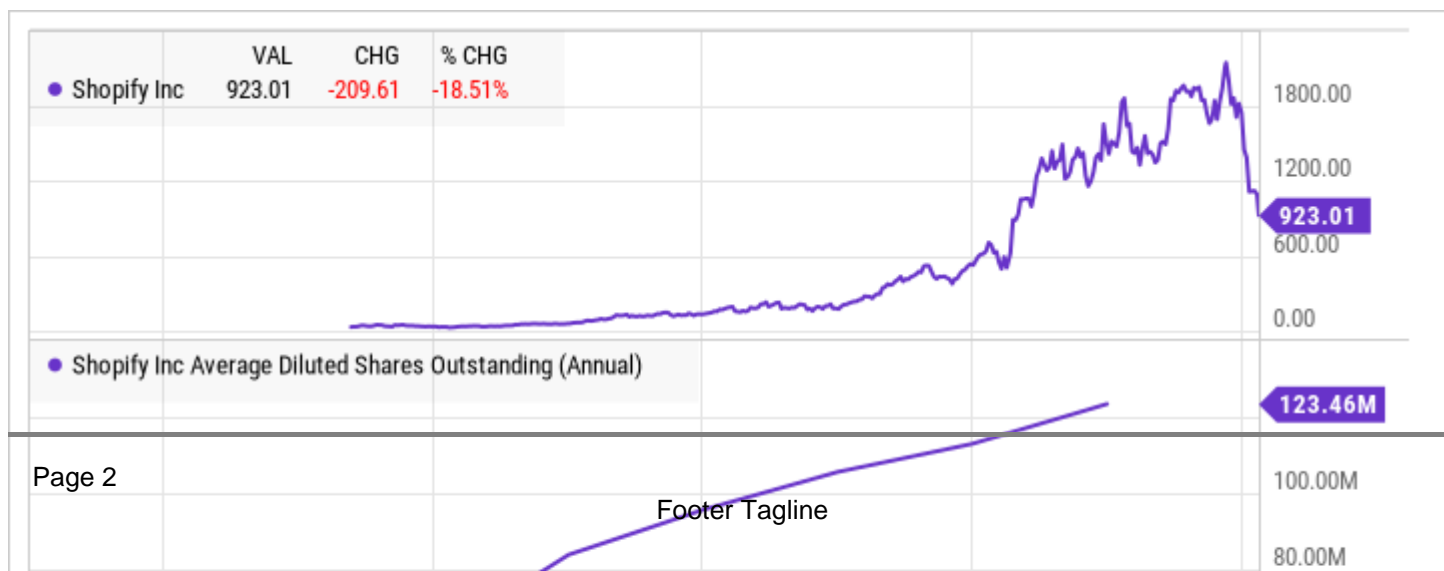
For the quarter, Shopify's revenue increased 41% to almost US\$1.4 billion. The gross profit was US\$692.7 million (up 37%), resulting in a gross margin of 50.2% (down from 51.6%) versus Q4 2020. Its income from operations also shrank 87% to US\$14.4 million versus US\$112.5 million year over year, as operating costs increased across the board, including for sales and marketing, research and development, and general and administrative purposes. As a result, it posted net loss of \$371.3 million for the quarter versus net income of US\$123.9 million in Q4 2020.

Increases in operating costs totally ate into Shopify's profits in Q4. Hopefully, management is thinking of ways to keep its operating costs under control. However, one could argue that sales and marketing and research and development costs are investments for future growth.

Should you buy Shopify stock now?

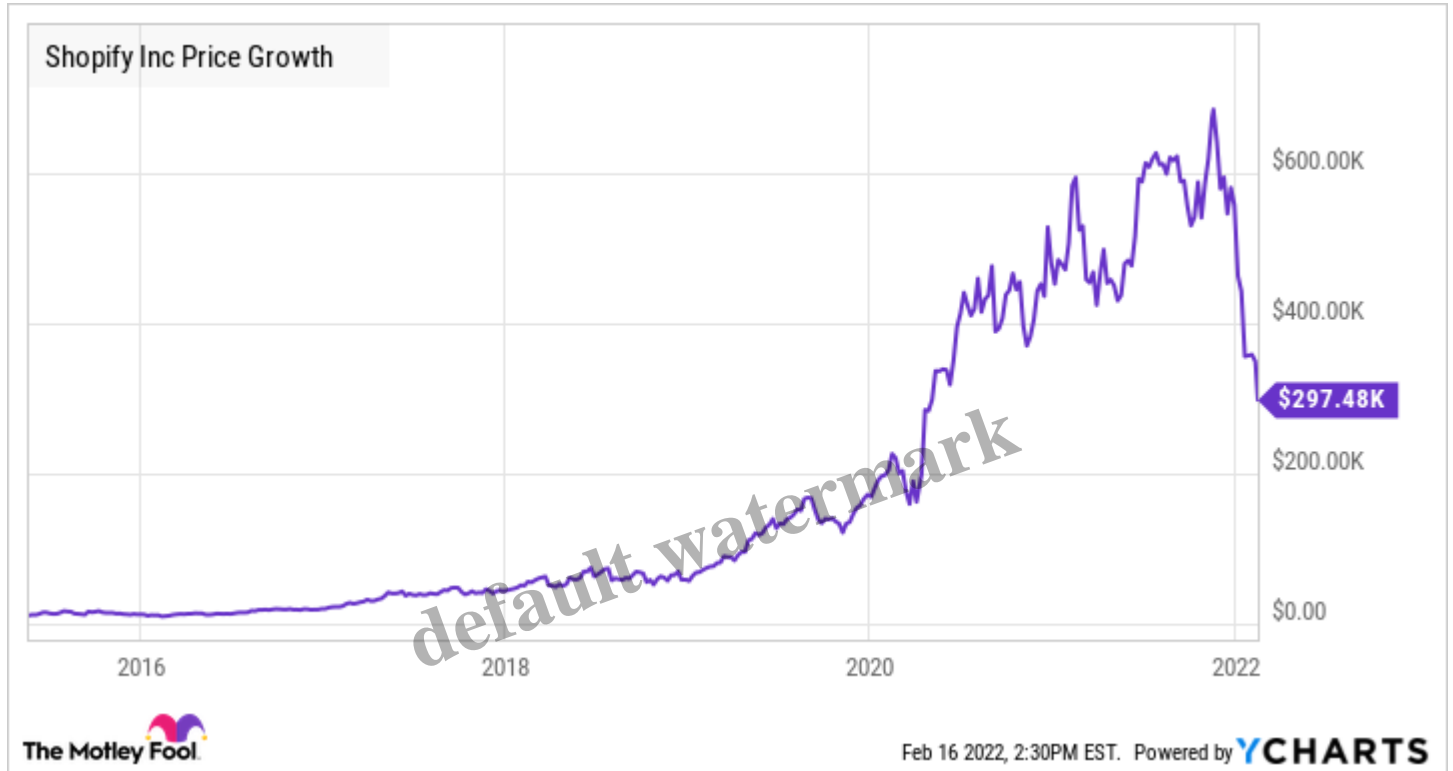
The growth stock has fallen from a stratospheric valuation to a more earthly one. So, it could be considered a value stock in the growing space of e-commerce. Shopify projects that its revenue growth in 2022 will be lower than the 57% growth rate achieved in 2021 due to factors explained at the bottom of its recent [press release](#).

Although Shopify stock is trading at a lower valuation than before, the financial market environment is much different from a year ago. Liquidity is tightening with the market anticipating rising interest rates. Moreover, the [tech stock](#) tends to raise funds by equity offerings. That said, it was pushing out shares during a time the growth stock was in an upward trend. It wouldn't be as good an idea to raise funds from equity offerings now that the stock is trading at much lower levels. Since the business has low debt levels, it could potentially raise funds that way if necessary.



SHOP data by YCharts

As the longer-term price chart illustrates, Shopify stock has still been lucrative for early investors. Someone who had an initial investment of \$10,000 would still be worth \$297,000 now. One can argue that SHOP stock's long-term upward trend remains intact for now. If you're still bullish on the e-commerce industry and Shopify, you can buy some shares here. Make sure you can stomach more volatility in 2022, though!



SHOP data by YCharts

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