



## Should You Buy Shopify (TSX:SHOP) Stock at an \$840 Price?

### Description

**Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has been tumbling since November 2021, falling 61% to \$837. The stock is currently trading at 25 times its sales per share, returning to its pre-pandemic level. This crash comes as the effect of the pandemic fades and bricks-and mortar-stores regain their ground. But it's not just Shopify. Other e-commerce players like **Amazon** and **Lightspeed Commerce** suffered a similar fate amid the [tech sell-off](#). Amazon and Lightspeed stock fell as much as 25% and 72%, respectively, in this sell-off. This brings us to one question, should you buy Shopify stock at \$840?

To answer this question, you first have to understand why the stock is falling. Will this dip leave a permanent mark on the stock price?

### Shopify and the tech sell-off

Shopify enjoyed its glory during the pandemic when every company and customer moved to online stores as physical stores were closed. The e-commerce giant soared like an eagle, rising fivefold between April 2020 and November 2021. At one point, Shopify even surpassed **Royal Bank of Canada** to become the highest valued stock trading on the TSX.

But then came the tech sell-off as the U.S. Federal Reserve hinted at increasing interest rates. It created a ripple effect, and the stock market saw a correction as investors sold overvalued stocks. The tech sector was the worst hit, and most stocks returned to their pre-pandemic levels.

Lightspeed descended faster than the other two as it was also hit by short-seller Spruce Point Capital's negative report. Amazon and Shopify also took a plunge as inflation surged to a 13-year high, thereby impacting consumer spending. Amazon has its cloud business to offset the retail sector's weakness, but Shopify has nothing to fall back on. Shopify investors rushed to book profits as the pandemic-induced 90% plus revenue growth and net income growth slowed.

## The 2022 challenges and opportunities

Shopify's fourth-quarter earnings affirmed investors' fears by reporting weak guidance. The management gave vague statements around its 2022 guidance, but the message was clear. The pandemic growth spree is officially over.

Shopify's [guidance](#) stated, "Against these bigger picture secular and economic assumptions, our financial outlook anticipates revenue growth for the full year 2022 that is lower than the 57% revenue growth achieved in 2021..." It is a long statement. But to give you a gist, Shopify's revenue growth accelerated from 47% in 2019 to 85.6% in 2020 due to the pandemic. It slowed to 57% in 2021, and now the company expects it to slow further. This could probably mean revenue growth of around 50% (pre-pandemic level).

If everything is returning to the pre-pandemic level, so should the stock price. (Shopify was trading at \$700 in February 2020.) The first half is seasonally slow for Shopify, and rising inflation is adding to the weakness. I expect further downside before the stock returns to growth. After Shopify missed the 2021 earnings estimates, Wall Street analysts reduced their price targets. During the pandemic, Shopify stock surged to over \$2,000 not just because of strong revenue growth but because it became profitable thanks to its asset-light model.

But then it started investing in the Shopify fulfillment network, which requires a lot of warehouse capacity. That goes against its asset-light model and increases its cost. It realized its mistake and cancelled warehouse and fulfillment-center contracts. However, the company is accelerating its marketing efforts to reach out to merchants in new geographies and is adding new merchant solutions. Until these solutions boost growth, Shopify stock could see low or moderate growth.

## Should you buy Shopify stock at \$840 price?

Looking at the macro and company-specific situation, I suggest waiting a little longer. Shopify stock is seeing a technical weakness. It has breached its 200-day and 50-day moving average and is currently oversold. The continuous weakness even pulled down its 50-day moving average below the 200-day moving average. I see more downside for the stock as the tax season approaches. Retail investors are probably accumulating money for the tax liability.

The stock could fall below \$800 by mid-2022. That would be a good time to buy Shopify as the second half could see the run-up to the Santa Claus rally. For a [cyclical](#) growth stock like Shopify, you could book partial profits during the holiday season and buy more shares during the off-season in May. While I prefer buying and holding a good stock for several years, timely profit booking keeps you motivated.

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1. Coronavirus
2. Investing
3. Tech Stocks

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