



Why Shopify Stock Dived 23% Last Week

Description

What happened?

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock plunged by about 23.2% last week to settle at \$837 per share against a 2.5% drop on the **TSX Composite Index**. It was the stock's worst weekly performance ever. With this, [SHOP stock also reached its lowest level](#) since April 2020, as it currently trades with massive 52% year-to-date losses.

So what?

Last week's steep drop in Shopify stock came after the company [announced](#) its fourth-quarter results on February 16. In the December quarter, the Canadian e-commerce firm reported a 41.1% rise in its total revenue to US\$1.38 billion — marginally better than analysts' expectation of US\$1.34 billion. A solid 47% year-over-year growth in its merchant solutions revenue helped Shopify post strong overall sales growth for the quarter. As a result, its adjusted earnings for the quarter jumped to US\$1.36 per share, beating Street's estimate of US\$1.24 per share by a healthy margin.

As it doesn't expect COVID-related factors to continue boosting its sales in 2022, the company said its 2022 revenue growth rate could be lower than 2021. After its earnings event, several Street analysts' cut their target prices on SHOP stock, adding pessimism. Despite its largely better-than-expected Q4 results, analysts' downgrades and its 2022 revenue-growth outlook seemingly hurt investors' sentiments, leading to a selling spree in Shopify stock price.

Now what?

Clearly, analysts' optimism on Shopify stock reduced last week after it guided that its 2022 revenue growth could be lower than 2021. However, I don't consider this guidance to be disappointing, as I wasn't expecting the global pandemic-related factors to continue driving the company's sales higher even in the post-pandemic world.

In my opinion, even if Shopify manages to post strong double-digit revenue growth in 2022 compared to last year, it would still reflect the company's ability to maintain strong sales growth in the post-pandemic era. Given this factor, along with its increasing effort on international market expansion, the recent selloff in SHOP stock might be overdone. That's why long-term investors may want to consider buying Shopify stock on the dip to get outstanding returns. I would still recommend investors remain cautious, though, as the ongoing tech sector volatility could increase your stock portfolio's risk exposure.

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