



3 Reasons Why Shopify Stock Is Down 60% From Record Highs

Description

Shares of Canada-based e-commerce giant, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) are currently trading 60% below all-time highs, valuing the company at [a market cap](#) of \$105 billion. Despite its massive pullback, SHOP stock has returned 2,580% to investors since the company went public back in mid-2015.

Let's see what has impacted Shopify in recent trading sessions and if it can stage a comeback in 2022.

SHOP stock is expensive

After a tremendous run in 2020, COVID-19 stocks, including Shopify, experienced a deceleration in top-line growth in recent quarters. The ongoing pandemic forced retailers to set up an online presence increasing the need for Shopify's suite of products and services.

This allowed Shopify to increase sales by 86% year over year to US\$2.92 billion in 2020 compared to a 48% increase in revenue in 2019. But as economies all over the world relaxed restrictions, Shopify's top-line growth was bound to slow down in 2021.

Further, as inflation numbers are near multi-year highs, the Federal Reserve is expected to increase interest rates multiple times this year. So, stocks will find it expensive to raise debt capital and fund their expansion plans. Additionally, higher interest rates will shift investment capital away from equity and towards debt.

Shopify stock is forecast to report sales of US\$7.71 billion in 2022 and US\$10.29 billion in 2023. We can see that SHOP stock is valued at a forward price-to-2022-sales multiple of 10.7, which is still expensive. So, the stock can easily move lower if the broader market selloff continues.

A contraction in the bottom line

In addition to slowing revenue growth, Shopify will also have to spend more on customer acquisition,

as businesses are re-shifting focus on brick-and-mortar stores once again. The company confirmed it will ramp up capital expenditures this year and is expected to spend US\$1 billion between 2023 and 2024 on establishing a network of fulfillment warehouses.

Analysts tracking the stock expect adjusted earnings per share to fall from US\$8.18 in 2021 to US\$6.12 in 2022. So, right now, SHOP stock is valued at a forward price-to-earnings multiple of 107, which is sky high.

Shopify provided a tepid guidance for investors

Shopify announced its Q4 results last week and reported revenue of US\$1.38 billion, an increase of 41% year over year. Comparatively, its adjusted net income stood at US\$172.8 million or US\$1.36 per share. Analysts tracking SHOP stock forecast revenue of US\$1.3 billion and earnings of US\$1.21 per share in Q4.

While Shopify did not provide material guidance for 2022, it emphasized that the accelerated adoption of e-commerce is unlikely to continue this year. So, revenue growth would be the lowest in Q1 of 2022 and highest in Q4 of 2022. The company also explained a revision to contract terms will change the way Shopify recognized certain revenue. It might lower top-line numbers temporarily and will remain a near-term headwind for the stock.

What's next for Shopify investors?

In Q4, Shopify's merchant solutions business raked in US\$1.03 billion in sales and was up 47% year over year. It was the first time this business reported more than a billion in quarterly business. Its gross merchandise volume, which is the value of products sold on the Shopify platform, surged by 31% to US\$54.1 billion, while gross payments volume was up 51% in Q4.

Shopify continues to grow at a brisk pace, and the [adoption of online retail is a story](#) that will play out over the long term. Investors need to remain patient and [accumulate Shopify shares](#) at every major dip.

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araghunath

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