



Shopify Stock: Is It a Bargain as Pandemic Gains Evaporate?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock was caught in the crosshairs of the latest market sell-off, given its ridiculously high valuation multiples at its peak. Indeed, dip-buyers have been in a world of pain lately, with the stock now going for around \$800 per share, a far cry from its peak just shy of \$2,200 per share.

Down around 64% from its high, Shopify stock is falling more sharply than it rose during the pandemic. Indeed, the stock is just one or two more big bad days away from its pre-pandemic high of around \$700 per share. It doesn't seem to make sense, given just how much better the e-commerce company has become through the last two years and the magnitude of the tailwinds brought forth by the COVID pandemic.

Shopify stock: Did it deserve to take such a huge hit to the chin?

While there's no doubt that Shopify is a better version of itself today, one must remember that the stock's valuation is a whole different story. SHOP stock has always been costly. As Shopify stock continued climbing higher, enriching those who held its shares through the worst of the pandemic lockdowns, the price-to-sales (P/S) multiple climbed higher and higher. Indeed, a considerable amount of multiple expansion happened as the stock went on to more than quadruple in under two years.

Although Shopify clocked in magnificent quarters that got the market excited, it was just a matter of time before the company fell short of expectations. Unfortunately, for those who chased the stock amid the pandemic, the company reported its quarterly fumble at a time when investors were aggressively ditching their high-multiple growth stocks.

Rates are rising; growth is sinking

Rates are rising, and they might increase at a rate that could hurt the value of growth companies that

aren't yet profitable. Indeed, if a stock like Shopify can double or triple over just a few quarters, it should not come as a surprise to learn that the stock is near shedding two-thirds of its value in a hurry. It's the perfect storm right now, and it doesn't seem like growth promises are going to cut it anymore. Valuations matter, and like it or not, Shopify stock remains expensive from the view of a value investor.

Now, does it make sense to evaluate a company like Shopify through the lens of a value investor?

Probably not. Growth companies ought to be worth a hefty [premium](#). With an incredible management team and a large TAM (total addressable market), Shopify should trade at a richer multiple than its peer group. That said, nobody knows how much of a premium. Further, it's tough to say whether the peer group ought to be valued as high as it is right now, given the macro environment that could be less kind to companies that have valuations pricing in many years worth of growth in the future.

Shopify stock is hard to value. If you're a growth investor, you'll value Shopify stock [differently](#) than if you were an old-fashioned value investor. The troubling thing is that the big valuation reset we've witnessed seems to discount things like growth plans or even impressive sales growth. Investors want to see earnings now, and they don't want to pay an absurd multiple for it.

What should investors be willing to pay for a top-of-the-line growth stock like Shopify?

Undoubtedly, Shopify's multiple remains expensive at this juncture and still seems to price in sales growth rather than profitability prospects. For a fast-moving innovator like Shopify, I'd argue that it's right to focus on gaining market share and driving sales growth rather than improving margins and profitability. You see, innovators need to innovate, not cut costs to appease the value crowd.

For that reason, I believe there's nothing fundamentally wrong with Shopify. It's still the fantastic company it was back when it was trading at over \$1,000 per share. The only thing that's changed is how investors view it.

The answer mostly depends on where rates are headed. I'll be sitting on the sidelines until the stock isn't so volatile. Shopify goes for 17.3 times sales, which is an uncomfortably high multiple, in my opinion.

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Date

2025/09/10

Date Created

2022/02/23

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