Shopify: Was the Sell-Off Overblown?

Description

Shopify Inc (TSX:SHOP)(NYSE:SHOP) underwent a brutal sell-off last week. After releasing its fourth-quarter and full-year 2021 earnings, it fell 18% in a single trading day. It continued to sell off in the days immediately after the release. By Friday, it had fallen a whopping 46% for the full year, and 60% from the all-time high.

Clearly, investors didn't like the earnings that Shopify put out. However, their reaction may have been overblown. Shopify's results were not entirely discouraging. Revenue and adjusted earnings beat expectations, and GAAP earnings missed only because of non-cash factors. Shopify's fourth-quarter operating results were quite strong. In this article I will make the case that the markets overreacted to SHOP's fourth-quarter earnings, and that the stock is actually starting to get pretty interesting.

Revenue and adjusted earnings still solid

For the fourth quarter, Shopify reported the following metrics:

- $1.38 billion in revenue, up 41%
- -$2.54 in GAAP EPS, down from $0.99
- $1.36 in adjusted EPS, down 14%

Overall, these results were not terrible at all. And the worst one of them all–GAAP earnings–was heavily influenced by non-cash factors. Shopify owns a large portfolio of publicly traded stocks, and some of them went down a lot in the fourth quarter. That caused Shopify's earnings to decline under the generally accepted accounting rules. However, Shopify did not actually sell the shares. For all we know, the losses will reverse in the future. So, there is some reason for optimism that the GAAP earnings decline will turn around.

Multiples coming down

Another reason why the recent Shopify sell-off may have been unjustified is because it took the stock down to surprisingly reasonable valuation multiples. As of this writing, SHOP trades at:

- 102 times adjusted earnings
- 28 times GAAP earnings
- 17 times sales
- 7.4 times book value

These multiples are not even that high by the standards of big tech stocks these days. And remember: SHOP is still growing revenue at 41%. It could easily catch up with the valuation the market has given it.

Verdict: SHOP is the best value it has been in years

Taking into account growth, valuation, and recent earnings, it becomes clear that Shopify stock is today the best value it has been in years. Fundamentally, its business has grown, while the valuation attached to the business has come down. This implies that the stock is a better value today than it was a few weeks ago. That doesn’t mean the stock will go up, but it does make it more interesting than it was at any time in the recent past.

Ultimately, the decision whether or not to invest in a stock is a personal one. For me, I have decided not to pull the trigger on SHOP just now, but I may buy if it goes a bit lower. I owned the stock very briefly in the past, but sold because I thought it was too expensive. Today, the biggest concern I had about the stock is much less of a concern than it was in the past. So maybe SHOP will make it into my 2022 buy list eventually.

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