Shopify (TSX:SHOP) Stock Just Dropped 52%: Time to Buy?

Description

So far, it has been a painful for year for **Shopify** (TSX:SHOP)(NYSE:SHOP) stock. Since the start of the year, its stock has declined 52%. At $830 per share today, its stock is down more than 60% since November 2021. In fact, Shopify stock hasn't traded this low since April 2020.

Shopify lost its coveted status as Canada's most valuable stock

Shopify was once the market darling of Canada. For more than a year, it dominated the top spot on the TSX as the most valuable listed company in Canada. However, the TSX has a curse. Historically, the most valuable stock in Canada has been dominated by bank stocks, especially **Royal Bank of Canada** .

Any time another stock has taken its place, the stock has been doomed for a significant decline. It happened to **BlackBerry**, Valeant (now **Bausch Health**), and Nortel Networks. Today, BlackBerry and Bausch stocks trade for fractions of what they once did. Nortel went bankrupt.

Fortunately, I don't believe the same fate will occur Shopify stock. Undoubtably, its stock got too expensive. Even after the massive decline, it still trades for 13 times sales and 172 times earnings. It trades with an enterprise value-to-EBITDA ratio of 100 right now. However, that is down significantly from 40 times sales and 500 times earnings in late 2020.

Strong history of growth

However, the company has been delivering incredible results. Over the past five years, it has been growing revenues by +50% a year. Likewise, EBITDA and earnings have been rising at nearly double that rate. The pandemic was a major tailwind for Shopify stock. Merchants could not operate in-store due to lockdowns, so Shopify was the ideal e-commerce platform to go to. In 2020 alone, sales surged 87%!

Likewise, Shopify captured very strong market share. It has become the second most dominant e-commerce player next to **Amazon.com**. Shopify has provided smaller merchants the opportunity to actually compete with large retailers and e-commerce giants.

Shopify's stock is catching up to fundamentals now

Yet it should come as no surprise that Shopify's growth would slow. With the world re-opening from COVID-19, normal retail patterns (both in-store and e-commerce) are set to normalize. However, it does not mean Shopify still does not have a large opportunity. Not only is it diversifying its platform, it also can expand geographically as well.

These factors should contribute to solid opportunities for revenue and earnings growth for many years forward. Despite the decline in Shopify stock, it still has a great platform, an innovative team, and a great CEO. Growth may be closer to 30% than its prior 50% range. However, that is still an attractive growth rate, especially if it is sustained for many years ahead.

The Foolish takeaway

Certainly, Shopify stock is still expensive today. However, it is starting to look more and more appealing. If you believe e-commerce is still a secular growth trend, Shopify is a great way to get exposure for the long run. Cautious investors may want to wait for the stock to flatline or hit a more attractive valuation. Another way is to average into the position through several purchases across the coming year.

If you wish to proceed, keep in mind that the valuation of Shopify stock does put it on the riskier spectrum. But if you have a long time horizon (10 or more years), the chances look favourable that you still earn a significant return.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. robbybrown

Category

1. Investing
2. Tech Stocks

Tags

1. Editor's Choice

Date
2025/08/16
Date Created
2022/02/24
Author
robbybrown