Shopify Stock Price: Where Can it Go From Here?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) is undoubtedly one of the most popular stocks among Canadian investors. The price of Shopify stock grew at an average pace of almost 100% per year from 2016 to 2021. With compound interest, that translates to a nearly 3,000% gain in just five years for investors.

After Shopify's significant selloff over the last three months, though, you may be wondering if the opportunity to earn a tonne of growth with Shopify stock is over. However, despite this selloff, Shopify stock is still a dominant company in an industry that offers tonnes of opportunities to grow.

With that being said, though, even with this long-term growth potential, in the short term, Shopify faces a few different headwinds, which is why it's sold off so significantly as of late.

So, let's look at the price of Shopify stock to see whether it's overvalued, undervalued, or fairly valued, and where it can go from here.

Why is Shopify stock down significantly in the last year?

The first reason Shopify stock has been selling off lately and has become ultra-cheap is due to the fact that tech stocks have been falling out of favour.

The combination of rapidly rising inflation and increasing bond yields have investors looking to lower their exposure to risk and higher-growth stocks. Naturally, Shopify stock has been impacted. But in addition to the tech stocks falling out of favour, Shopify and the e-commerce industry's tailwind from the pandemic is now gone. Shopify is no longer expected to get any growth related to the pandemic and shutdowns.

The e-commerce industry will, of course, still be growing naturally over the long run. However, the rapid growth experienced during the pandemic is no longer expected.

In addition to these industry factors impacting Shopify, the stock price fell considerably after the company recently reported earnings. That included the guidance going forward, which said that the pandemic wouldn't impact growth anymore. However, it also had to do with Shopify's financial guidance, which showed the company is planning to spend a tonne of capital on growth over the coming years.

Because of this, and the current economic environment, where monetary policy is being tightened, and tech stocks are out of favour, Shopify stock might not bounce back immediately.

Nevertheless, it's important to keep a long-term mindset. So, once the stock looks undervalued, if you believe it can still continue to dominate in the growing e-commerce industry, as I do, then it's worth a buy.

So, let's look at how cheap the price of Shopify actually is today, and at what point does the stock become a buy?

What price makes Shopify stock a buy?

At roughly $860 a share, the price of Shopify stock is currently more than 60% off its all-time high. In addition, even after analysts have now put out new estimates and target prices, Shopify looks considerably undervalued.

The average target price for Shopify stock sits at more than $1,300 a share, a roughly 50% premium to today's price. In addition, the lowest target price is still more than $1,000.

Looking at valuation metrics, it also seems to be the case that Shopify stock is undervalued at the current price. Its current forward price-to-sales ratio of just 14 times is the cheapest it's been since February of 2019 — a year before the pandemic began to impact markets.

Bottom line

While Shopify stock faces some significant headwinds in the short run and may not recover immediately, it's still one of the best growth stocks you can buy now.

Plus, because the stock is so cheap, there is little downside risk in the shares today. If you're a long-term investor looking to take advantage of an incredible opportunity, Shopify is certainly one of the top stocks you can buy today.

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