



Why Shopify Stock Fell 30% in February

Description

Shares of Canadian tech giant **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) fell by 30% in February 2022 and are currently trading 60% below all-time highs. The company was impacted by a wide variety of factors ranging from valuation concerns to the possibility of multiple interest rate hikes, rising inflation numbers, and, more recently, the [conflict between](#) Russia and Ukraine.

In addition to these macro-economic factors, Shopify also reported its fourth-quarter results on February 16, which disappointed investors and Wall Street.

Let's see if Shopify stock can regain momentum and reclaim lost ground in the upcoming months.

Shopify's revenue growth will decelerate in 2022

Shopify experienced two stellar years on the back of COVID-19. While its revenue grew by 47% year over year to US\$1.57 billion in 2019, its top line grew by 86% in 2020 and 58% in 2021. So, in the last two years, Shopify almost tripled revenue and more than doubled its gross merchandise volume, which is the total value of transactions executed on the company's platform.

Shopify also doubled its merchant base since 2019 and ended the last year with a merchant base of more than two million, as brick-and-mortar retailers had to set up an online presence amid the ongoing pandemic.

Shopify reported revenue of US\$1.38 billion in Q4 — an increase of 41% year over year. Its subscription solutions sales grew by 26% to US\$351.2 million while merchant solutions sales soared by US\$1.03 billion. In fact, merchant solutions revenue surpassed US\$1 billion for the first time in a single quarter.

The company's monthly recurring sales rose by 23% to US\$102 million in Q4, while GMV grew by 31% to US\$54.1 billion. Its gross payments volume stood at US\$27.7 billion, accounting for 51% of total GMV processed in the December quarter.

However, analysts expect Shopify sales growth to decelerate to 31% in 2022. Further, as Shopify is focused on expanding its network of fulfillment centres in the next two years, its adjusted earnings per share might decline to US\$5.04 in 2022 compared to US\$8.16 in 2021.

What's next for SHOP stock investors?

Given consensus estimates, SHOP stock is valued at a forward price-to-sales multiple of 10.9 and a price-to-earnings multiple of 134, which is [extremely steep](#). There is a good chance for Shopify stock to trade at a lower price given the volatility surrounding equity markets right now.

Alternatively, Shopify remains a top long bet, as the company is focused on building a sustainable e-commerce infrastructure and simplifying the operations of its merchant base.

Shopify is well poised to grow revenue in the upcoming decade, as it continues to expand its suite of products and services. For example, it plans to enable merchants to connect with more buyers as well as deepen buyer relationships. The company also aims to help merchants establish a global presence through product localization and other commercial initiatives.

The aggressive expansion of its fulfillment centres will help Shopify better control quality and cost and provide merchants with a much-required service.

Wall Street remains bullish on SHOP stock and has a 12-month average price target of US\$1,775, which is an increase of 162% from current levels.

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Date

2025/09/10

Date Created

2022/02/28

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