Here’s Why Shopify (TSX:SHOP) Dropped 17.1% in 1 Day

Description

Reaching the top isn’t as difficult as staying at the top. This is as true for corporations as it is for individuals. Take **Shopify** (TSX:SHOP)(NYSE:SHOP) as an example. There was a time when it displaced one of the longest-reigning “kings” of the TSX — i.e., the **Royal Bank of Canada** — to become the largest market-cap security on the exchange.

Now, it’s in seventh place and dropping. One factor is that its rise to the top was too rapidly “meteoric” to be sustainable. Still, there are other reasons behind the company’s fall as well — both the general and the recently accelerated fall.

Shopify’s 17% fall in a day

The tech giant fell over 17% in a single day on Feb. 16. It’s the single most aggressive fall in 2022. The most apparent reason for the fall is that the company announced its earnings that day, which is ironic, as the company didn’t just exceed investor expectations for specific numbers; it achieved a significant milestone in gross merchant value — hitting $1 billion in a single quarter.

The company also pointed out an obvious but dangerous fact/trend currently in the making. And it’s that the e-commerce boom, which gained a lot of momentum during the pandemic, will slowly fade, and the future revenue of e-commerce facilitators like Shopify may not be as stellar and “shiny” as they were in 2021. The obvious reasons were macro, like the absence of stimulus and more restricted e-commerce spending by prospective customers.

But there was also a more internal reason. The subscription solutions revenue might suffer in the first quarter of 2022 due to some changes the company made in its subscription policies, which didn’t come into effect till late last year.

Is Shopify still a buy?

Shopify is currently trading below $900 per share, and at the pace it’s dropping, the company *may* fall as low as $700, which is the pre-pandemic peak price point. A fall of this size is almost as disassociated from the projected financials as the post-pandemic spike compared to its former growth pace.

And even if we disregard all the growth the company accomplished in the last two years, it’s still one of the most potent growth stocks in the history of the TSX, which is currently almost undervalued compared to other tech stocks.

More importantly, the company hasn’t lost its market share, and it’s unlikely to do so in the coming years. It may see a more paced growth, but once the slump is over, if the stock starts growing at its default, pre-pandemic pace, it’s worth buying.

Foolish takeaway

It can be argued that Shopify is currently an undervalued stock, because the management decided to stand ahead of the problem by forewarning everyone about how the economic realities will shape the course of the company’s future financials. But some investors may have taken the warning more seriously than the company intended.

And if you want to play it safe, you may consider waiting till the next earnings report (unless a strong upward or downward trend builds).

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