



Tech Sell-Off: 2 Growth Stocks Trading at a Discount, According to Wall Street

Description

In the last six months, market-wide support for richly valued securities has weakened considerably. As inflation is close to 40-year highs, it's quite possible the U.S. Federal Reserve may increase interest rates multiple times in 2022. This in turn would impact consumer spending and increase borrowing costs for corporates, driving the bottom line lower.

We can see why investors have liquidated their positions with respect to [growth stocks](#). However, the domino effect has also created a buying opportunity for those with a long-term investment horizon. For instance, quality companies such as **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) and **MercadoLibre** ([NASDAQ:MELI](#)) are trading at far lower valuations right now. While SHOP stock is down 60% from record highs, MercadoLibre has pulled back by more than 40% since September 2021.

Both companies are part of the e-commerce market, which is forecast to grow at an annual rate of 10.7% through 2025 to reach US\$7.4 trillion, providing both companies with enough room to grow their revenue.

The bull case for Shopify stock

Shopify provides a platform that allows merchants to establish an online presence. The company has successfully expanded its ecosystem as it also provides tools for payment processing, shipping, and financing.

One of Canada's largest companies by market cap, Shopify ended 2021 with more than two million merchants onboard. Its Shopify Plus platform targets larger enterprises and counts heavyweights such as **Netflix** among its customers.

Shopify was the second-largest e-commerce player in the U.S. [with a share](#) of 10.3%, compared to 8.6% in 2020. We can see that Shopify is growing at a faster pace compared to the broader e-commerce market, allowing the company to increase sales by 57% year over year in 2021 to US\$4.6 billion. Its GAAP operating margin doubled to 6% while free cash flow rose by 18% to US\$454 million.

Shopify forecasts its total addressable market at US\$160 billion. It continues to expand its suite of products while recently launching tools to streamline cross-border commerce and money management services.

Analysts tracking SHOP stock have a 12-month average price target of US\$1,762 which is 162% higher than its current trading price.

The bull case for MercadoLibre

Often called the “**Amazon** of Latin America,” MercadoLibre is [an e-commerce giant](#) and accounts for 30% of the region’s total market. Its marketplace attracts 668 million visitors each month, which is 300% more than the next largest player.

The company’s Mercado Pago product aims to democratize digital payments where online payments penetration is significantly lower compared to developed economies. It also offers logistic solutions such as shipping and fulfillment, which ensures merchant engagement.

In 2021, MercadoLibre sales rose by 78% year over year to US\$7.07 billion. Analysts expect revenue to rise by 35.3% to US\$9.56 billion in 2022 and by 32.4% to US\$12.66 billion in 2023. MELI stock is trading at a forward price-to-sales multiple of 5.9 times, which is quite reasonable.

Despite the ongoing pullback, MELI stock has returned over 1,000% to investors in the last 10 years. Analysts remain bullish and expect MercadoLibre shares to increase by 46% in the next 12-months.

CATEGORY

1. Investing
2. Tech Stocks

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

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Author

araghunath

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