Shopify Stock Down 60%: Time to Buy?

Description

Shopify Inc (TSX:SHOP)(NYSE:SHOP) is down more than 60% from its all-time high. As of this writing, it traded for $833, a 61% decline to its 2021 high of $2,140. Just a year ago, SHOP looked like it was unstoppable. One of the few companies to benefit from COVID-19 safety measures instead of being hurt by them, SHOP saw its fastest growth ever in 2020.

This time last year, SHOP was releasing fourth-quarter 2020 earnings. In the release, the company revealed that it grew revenue by 94% for the quarter and 86% for the full year. It was an incredible showing. And the decent results continued in 2021 for the most part. Although revenue growth decelerated last year, it was still "good" in absolute terms. So it's not entirely clear why the markets have lost faith in Shopify. In this article I will attempt to answer that question, by exploring some possible reasons why SHOP is down. I'll also try to answer the question of whether the stock is a buy at today's depressed prices.

Why Shopify is down

There are two main reasons why Shopify stock is down right now:

1. Sector-wide weakness in tech stocks
2. Fourth-quarter results that were not exactly amazing

The first of these is pretty easy to explain. Stocks are positively correlated with other stocks (their prices move in the same direction). Tech stocks are showing weakness globally right now. The NASDAQ is down nearly 20% from its all-time high, and most of the major tech companies are down right along with it. Shopify, as a tech stock, is predictably moving in line with its sector. It is down a lot more than the average tech stock, granted. But that's easily explained by it being a smaller tech stock with a steeper valuation than top NASDAQ components. Such characteristics lead to above-average volatility in stocks.

The second factor is a bit harder to explain. Shopify's fourth-quarter earnings results were not bad, but not amazing. The company beat slightly on revenue and adjusted EPS, but missed on GAAP earnings per share. The GAAP miss was much bigger than the beat on adjusted earnings. That probably caused investors to lose faith in SHOP. However, the GAAP earnings were heavily impacted by non-cash factors–namely, losses on the company's stock portfolio. If these losses reverse, then SHOP might deliver higher earnings in the future.

Foolish takeaway

Having looked at all the factors influencing Shopify's stock price decline, we can conclude this:

It is certainly a better buy now than it was in the past. Shopify is still growing its revenue, adjusted earnings, and operating cash flows extremely rapidly. It is worth more in fundamental terms now than it was when it traded for $2,190. However, that in itself doesn't make the stock a buy. A stock can go down and still be overvalued. While Shopify is still cheaper today than it was in the past, it's still a very pricey stock. Personally, I'm still not 100% sold on Shopify stock. It may be a good buy for a more risk tolerant investor than myself.

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