Is Shopify Stock a Screaming Bargain at $800?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) has suffered such a massive fall over the past several months, now down over 62% from its all-time high just north of $2,000 per share. Year to date, Shopify stock finds itself off 48% in a brutal start to the year.

Thanks in part to an underwhelming quarterly report (a rare miss in Q3) and what seems to be a “valuation reset” in those high-multiple tech stocks, it’s been the perfect storm of selling pressure to hit Tobi Lütke’s Canadian e-commerce firm. Indeed, the third quarter was pretty ugly, but with a modest bottom-line beat for Q4, could it be that the oversold stock is actually a bargain? I think that could be the case, with the stock looking to form a bottom in the $800 range.

Indeed, the pandemic was a massive boost to the e-commerce juggernaut.

In late 2021, the boost faded away and naturally; it would be harder for Shopify to continue its lockdown-era growth. Tough comparables and all the sort made it hard for Shopify to stack up against expectations. Should such expectations have been so high to begin with? Probably not. I’d argue that waning growth is to be expected, as tailwinds fade. In due time, I think Shopify will be right back up on that growth track. The e-commerce space is still rich with growth, and few firms are more geared to make the most of the opportunity at hand than Shopify.

Shopify’s pandemic tailwind fading

It’s been a bumpy road to normalcy. But Shopify is in great shape to continue adding to its strengths. Simply put, there are many growth levers to pull that can help the firm reaccelerate its growth going into the latter half of 2022. My primary concern with shares of Shopify is not with the sustainability of its high growth rate. Rather, it’s the suspect valuation. Over the past few months, we’ve witnessed many magnificent growth stocks be sent straight to the penalty box. Investors have less patience for expensive growth stocks that aren’t vastly exceeding their expectations.

Many firms, most notably the big tech companies atop the S&P 500, have been blowing away the results to no avail. So, when a firm falls short, investors can expect “double damage” on a stock under question, so to speak. Eventually, Shopify will be back to impressing. For now, however, we're at a point where a "beat and raise" is no longer going to cut it if a firm is to resist the impact of significant multiple compression.

Shopify stock is still very expensive

Even after shedding over 60% of its value, SHOP stock is anything but a cheap stock at a painful 18 times sales. Indeed, investors were more than willing to pay over 40-50 times sales for Shopify stock when rates were at or around the floor. But what about with rates on the rise? And could it be that recent quarterly weakness could be the start of a trend of fumbles?

Indeed, the stakes are high. Personally, I'm not comfortable paying over 18 times sales for the likes of a Shopify and think the stock could easily get cut in half from these days. At below 10 times sales, I believe Shopify stock would be a great buy, assuming rates continue climbing higher over the next three years.

If the geopolitical turmoil keeps rates lower for longer, Shopify may prove to be a great value right here. With so much inflation hitting consumers, though, it's hard to imagine a scenario that would put a stop to rate hikes that we're so overdue for. For that reason, I'd much rather insist on a wider margin of safety with a name like Shopify. It's cheaper than it was last year, but given the trajectory of rates and the post-lockdown "hangover," a case could be made that it's more expensive now.

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