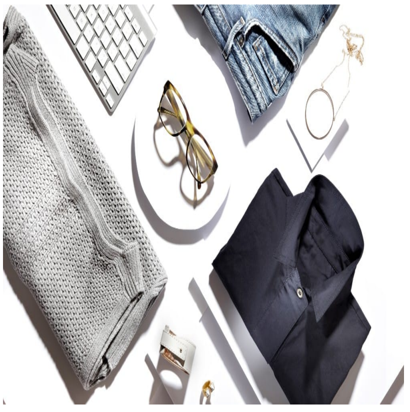

Shopify Stock Down 6.66%: Buy the Dip?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock fell another 6.66% on Monday. Following a brutal few months that included mixed earnings and interest rate concerns, the stock set new lows. As of Monday's close, SHOP was within striking distance of $500 — a price few saw it falling to just a few months ago.

Is SHOP a buying opportunity today, or is it just another falling knife?

Shopify's fourth-quarter earnings release was not all bad. The revenue-growth rate was 41%, and adjusted earnings beat analyst expectations. Thanks to the selloff, Shopify now enjoys a cheaper valuation, while still posting solid results. It certainly looks like the stock has gotten more valuable in fundamental terms. But should you buy the dip?

Why SHOP is falling

There are a number of recent developments that may explain why Shopify stock is falling:

- **Mixed earnings.** Shopify's most recent earnings beat on revenue and adjusted EPS but missed on GAAP EPS. The GAAP earnings were negative and missed by more than $2 per share.
- **Rising interest rates.** Interest rates are currently on the rise in both the U.S. and Canada. Higher interest rates are bad for growth stocks like Shopify, because they make their future growth less valuable. Almost all stocks are negatively impacted by higher interest rates, but high growth stocks are more impacted than their slower growth peers.
- **Valuation.** Prior to its recent selloff, Shopify traded at more than 40 times sales. Such inflated multiples don't tend to last long, so Shopify's selloff could be seen as a normal, healthy multiple contraction in an overheated market.

All of the above are plausible reasons for investor sentiment toward Shopify stock to dim. The reaction to the earnings release was a bit exaggerated, in my opinion. But if we take all of the above factors together, they do justify some kind of correction.

Is it time to buy the dip?

Having looked at reasons why SHOP stock has fallen this year, it's time to ask the question: Is it a good idea to buy the dip?

Before answering that question, it helps to look at what Shopify has going for it. The company is still a high-growth beast, with 41% revenue growth in its most recent quarter. It has been partnering with social media companies, giving it a piece of the e-commerce-social media market. It has a number of celebrities and top brands using its software. Finally, it is no longer unbelievably expensive, trading at 16 times sales and seven times book value. When we take growth and value together, it is unquestionable that Shopify is a *better* value today than it was at the start of the year.

But does that actually make it a buy?

For my money, not just yet. While I do think Shopify is starting to get more appealing, I'm personally eying prices of $650 or lower before I actually invest money in it. With interest rates rising and the war in Ukraine creating uncertainty, it's possible that the dim sentiment toward tech stocks could last a while longer. We may not enter a market where price/sales ratios above 20 are tolerated for a long time. If that's the case, then the fact that SHOP is down to 16 times sales doesn't mean much. It is still expensive by the more modest valuations investors are giving tech stocks this year.

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