# Why Shopify (TSX:SHOP) Stock Is Down 59% This Year

## Description

**Shopify** (TSX:SHOP)(NYSE:SHOP) is unquestionably one of the top wealth-creating Canadian stocks. However, the shares of this e-commerce giant are on a downtrend. A confluence of factors, including the general market selling, high valuation, inflation, and expected increase in interest rates led to a significant correction in Shopify stock.



It's worth noting that the demand for Shopify's multi-channel platform accelerated amid the pandemic. However, economic reopening leads to normalization in its growth rate, while the company is up against difficult year-over-year comparisons.

While the rally in Shopify stock amid the pandemic called for a healthy pullback. However, the recent selloff is way too much. Notably, Shopify stock has fallen quite a lot (about 59% on a year-to-date basis), leading to a compression in its valuation.

## Near-term headwinds

Despite the massive erosion in its value, Shopify stock could remain volatile in the short term due to the expected slowdown in growth. During the Q4 conference call, Shopify cautioned that its top-line growth could stay below the 2021 level as the year's first half faces tougher comparisons.

Further, Shopify expects the top-line growth to be lower in Q1, while it would accelerate gradually and will be highest in Q4.

Notably, Shopify's first-half performance in the prior year benefitted from the COVID-led acceleration, which will not repeat this year. Furthermore, inflation and consumer spending could further pose challenges.

Shopify is also ramping up investments into e-commerce infrastructure, which will likely pressure its near-term margins.

## Now what?

While Shopify's top-line growth is expected to moderate compared to the prior year (wherein it achieved 57% growth), it could continue to grow rapidly. Shopify could continue to benefit from the expansion of its services to newer geographies and an increased number of merchants. Moreover, contributions from its newly added products will likely support its sales.

While Shopify's margins could remain pressured in the near term, it will likely pay off in the long term and drive its margins and stock price higher.

## Bottom line

This correction in Shopify stock has created a solid opportunity to buy this multi-bagger at current levels. It is trading at NTM (next-12-month) EV-to-sales multiple of 10.6, which is considerably below the historical average and at a multi-year low.

While Shopify stock looks attractive on valuation, it has multiple growth vectors that could accelerate its growth and lead to a recovery in its stock price.



Shopify's multi-channel selling platform positions it well to capitalize on the ongoing shift towards digital. Furthermore, strengthening its in-house fulfillment network, expansion of products and services to newer geographies and merchants, new product launches augur well for future growth.

Furthermore, Shopify highlighted that social commerce is growing and presents a solid base for growth in the coming years. Notably, Shopify has partnered with top social media companies that have added newer sales and marketing channels for its merchants.

Overall, its low valuation and multiple growth catalysts make it a solid stock to beat the market in the long run.

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**Date**
2025/08/25
**Date Created**
2022/03/08
**Author**
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