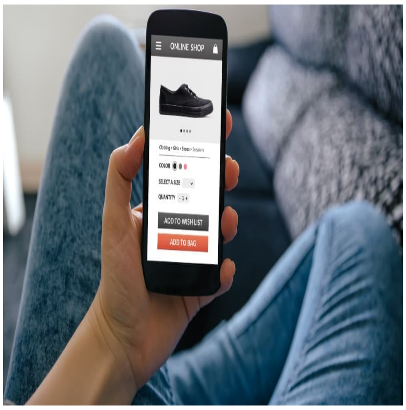

Shopify Stock: Will the Selling Continue?

Description

Shopify Inc (TSX:SHOP)(NYSE:SHOP) stock has been selling off like it's going out of business. This year alone, the stock has fallen 55%, and there are signs that more downside could be in the cards. This year, investor sentiment toward tech stocks is dimming. Interest rates are rising and the war in Ukraine is creating an atmosphere of uncertainty. The higher interest rates make tech stocks' superior growth less valuable, while the war is making investors flee out of tech and into commodities. It's not a great environment for tech stocks as a whole, and that's a large part of why Shopify stock is falling.

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With that said, SHOP has fallen much further than the average tech stock this year. In 2022, the **NASDAQ Composite Index** is only down 19%, while SHOP has been slashed in half. Clearly, investors are souring on SHOP more than the average tech stock. In this article I will explore some possible reasons why that's happening, and ask whether it will continue in the future.

Why investors are selling

There are several reasons why Shopify stock is selling off right now. I covered the macro/industry factors above. Now I'll take a look at the company-specific factors.

These include:

- **Valuation.** Shopify was one of the most expensive stocks in the world prior to its sell-off. It regularly traded at 50-60 times sales. Today, it's much cheaper than that, but it's still quite expensive. At today's prices, Shopify trades at 84 times adjusted earnings, 23 times GAAP earnings, 14 times sales, and 6 times book value. These are still pretty high multiples. They certainly aren't as high as they were in the past, but they're high enough to give investors pause.
- **Deceleration.** Shopify's sales growth has slowed significantly since its 2020 COVID-19 growth spike. In 2020, Shopify benefited from lockdowns, which closed the retail stores its vendors competed with. Since then, COVID-19 safety measures have eased, and SHOP is having to beat quarters in which it had the wind at its back. That has predictably caused deceleration in revenue, which has investors feeling underwhelmed.

- **Long-term growth concerns.** There are some concerns about Shopify's long-term growth trajectory. The company already does over $200 billion in GMV per year. If it were to double that amount, it would be doing as much GMV as **Amazon** does in revenue. There are few companies in the world doing the kind of GMV that Shopify would need to keep up its growth in the future. So, investors may be betting on slower growth going forward.

Why they might take a break

As I showed above, investors have some good reasons to take a second look at Shopify today. However, there are some good reasons for them to consider buying back in, too. Today, Shopify trades at its cheapest valuation in years, and its growth is still strong, despite slowing down. Potentially, the stock could catch up with its valuation over a number of years. If that happens then it will prove to have been a buy at today's prices.

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