Why Shopify Stock Gained 23% Last Week

Description

Shares of Canadian e-commerce giant **Shopify** (TSX:SHOP)(NYSE:SHOP) gained 23% in the last week to close trading at $859. There were several macro-economic factors that boosted investor interest in SHOP stock.

The rapid increase in COVID-19 cases in Europe, China, and Hong Kong may again increase demand for e-commerce products and services. In fact, China has already imposed restrictions in several provinces to stem the outbreak. While economic shutdowns in China will disrupt global supply chains and delay economic recovery, it will also lead to accelerated demand for the e-commerce vertical.

Further, oil prices have pulled back sharply from all-time highs. So, lower fuel prices will reduce shipping costs and increase profit margins for Shopify and its peers.

Despite the surge in SHOP stock, it's still down 45% year to date and 60% below all-time highs. Let's see if Shopify stock should be part of your shopping list in 2022.

The bull case for Shopify stock

Shopify has been among the top-performing growth stocks on the TSX since its IPO seven years back. Shopify stock has returned 2,650% to investors since mid-2015, easily crushing broader market returns. In this period, the company's trailing 12-month sales have surged by 4,000%.

Shopify offers subscriptions to merchants and individuals, while allowing them to create an online store and start selling products or services online. In addition to website development, Shopify provides a range of ancillary services to clients, including its payments platform known as Shopify Payments.

Shopify ended 2021 with more than two million merchants on its platform. It derived US$1.3 billion via subscription sales and US$3.3 billion in merchants solutions revenue last year. Merchant sales have been a primary driver of top-line growth since 2018 and this business has increased revenue by 442% in the last three years.

Shopify processed US$175.4 million in gross merchandise volume in 2021, which is the total value of transactions processed on the company's platform. Around US$86 billion of the GPV was derived from Shopify Payments, making it extremely critical for the company's long-term growth.

Analyzing metrics such as GMV and GPV (gross payments volume) will help you comprehend a company's market share in the e-commerce space. For example, global e-commerce sales stood at US$5 trillion last year, which suggests Shopify accounts for 3.6% of the total market.

Shopify has managed to grow its market share in the e-commerce segment, as its GMV has expanded at a faster pace. This trend is likely to continue given the e-commerce market is expected to touch US$7 trillion in 2025. Comparatively, Wall Street expects Shopify to grow sales by 31.4% to US$6.06 billion in 2022 and by 32.7% to US$8 billion in 2023.

SHOP stock is still overvalued

Given its market cap of US$89 billion, SHOP stock is trading at a forward price-to-2022-sales multiple of 14.7, which is very expensive. Further, analysts expect the company's adjusted earnings to narrow to US$3.77 per share in 2022, compared to US$6.41 per share in 2021, indicating a price-to-earnings multiple of 207.

Shopify continues to sacrifice growth for profit margins, making the stock extremely vulnerable when market sentiment turns bearish. Though SHOP stock trades at a hefty premium, it's impossible to time the market bottom. So, every major dip in its stock price should be viewed as a buying opportunity.

Analysts have a 12-month average price target of US$1,000 for Shopify stock, which is 28% higher than the current trading price.

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Date
2025/09/08
Date Created
2022/03/21
Author
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