Shopify (TSX:SHOP) Stock 5-Minute Analysis: Is It Still a Buy in 2022?

Description

Welcome to a multi-part series where I break down the fundamentals of some of the most popular TSX listed stocks out there! Up today is **Shopify** (TSX:SHOP)(NYSE:SHOP), a Canadian e-commerce platform.

Although a top performer in 2020 and 2021, Shopify has fallen on hard times recently, having lost -45% of its share price year to date. Many Canadians who bought Shopify around its all-time high of $2,228.73 per share are nursing heavy losses right now, with the stock currently trading at $845.47.

Background

Shopify primarily provides merchants with a platform to display, manage, market, and sell their products through various sales channels, whether web, mobile, social media, or physical retail based.

The platform provides features to manage products and inventory, process orders and payments, fulfill and ship orders, manage customer relationships, source products, leverage analytics, manage payments and transactions, and access financing.

Fundamentals

Shopify is a growth stock, so we want to focus on metrics that attempt to measure the rate and consistency by which the company improves its revenue, earnings, and profitability.

Shopify experienced 0% growth in its revenue for the past 12 months, which is remarkably flat compared to its pandemic highs. For many growth stocks, flat trends like this are a warning sign that the company is unable to meet the expectations of the market.

When it comes to operations, Shopify experienced a deterioration in its operating cash flow per shareof -0.51% over the past five years. We also saw Shopify's operating income reduced by -1.03%, and its EBIT reduced by -1.03% over the fiscal year.

Valuation

I don't have the time or space here to do a full discount cash flow analysis, but we can eyeball various valuation metrics for Shopify to get a sense of what the intrinsic value of the stock should be.

Shopify is currently trading with an enterprise value multiple of 41.76 and an enterprise value of approximately $158.6 billion, which is high compared to peers in the tech sector.

As of last year, the book value per share for Shopify is $91.29, with a price-to-earnings ratio of 46.83, price-to-sales ratio of 37.94, and price-to-free cash flow ratio of 308.9. These are all very high, even for mega-cap growth stocks in the tech sector.

Another metric we can check is the Graham number, defied as the upper bound of the price range that a defensive investor should pay for the stock. Shopify has a Graham number of $237.14 for the last 12 months. Compared to its current share price of $845.47, this implies that Shopify is potentially overvalued.

The Foolish takeaway

Currently, 13 out of 27 analysts recommend a buy for Shopify, while 14 out of 27 recommend holding. The 52-week low for Shopify is $654.69, which is a useful technical indicator for determining resistance levels or a potential bottom.

In my opinion, I think there is more downside on the horizon. A rising rate environment tends to wreak havoc on growth stocks like Shopify. In this case, I am siding with the 14 analysts recommending a hold. Investors looking to establish a position should wait for a better entry price.

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Date
2025/06/30
Date Created
2022/04/03
Author
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