Why Shopify Stock Fell 13% Last Week

Description

Shares of Canadian e-commerce heavyweight **Shopify** (TSX:SHOP)(NYSE:SHOP) fell over 13% last week. The decline in SHOP stock can be attributed to broader market weakness, as most major indices ended the last week in the red. The S&P 500 Index was down 3% while the tech-heavy Nasdaq Composite slumped over 4% in the last five trading sessions.

Several tech stocks including Shopify are trading significantly below all-time highs due to a multitude of factors that include multiple interest rate hikes, geopolitical tensions, concerns over the steep valuation of growth stocks, supply-chain disruptions, inflation numbers, and the ongoing pandemic.

At the time of writing, Shopify stock is trading 65% below record highs. Despite the recent pullback, Shopify has returned over 2,300% to investors since its IPO in 2015. Let's see if Shopify can stage a comeback going forward or if it will continue to trail the indices this year.

The bull case for Shopify stock

Shopify remains the go-to platform for small and medium enterprises looking to set up an online presence. Its easy-to-use tools combined with a low-cost structure and focus on customer service have allowed Shopify to gain traction in a rapidly expanding market.

Further, a report from Grand View Research estimates the global e-commerce market to expand annually by 15% through 2027 to be valued at US$27 trillion. A widening addressable market will enable Shopify to grow its top line and earnings consistently in the upcoming decade.

In addition to its online platform, Shopify has expanded its suite of services to offer network fulfillment to the merchant base. Here, Shopify will process, package, and ship customer orders and invest US$1 billion in the next three years to build a robust network of fulfillment centres.

Shopify ended 2021 with more than US$4.5 billion in sales and a customer base of two million. It's a platform that provides a range of services that including payment processing, shipping solutions, and marketing. Further, its developer ecosystem has meant merchants can find 8,000 applications that can be plugged in, expanding customers' online capabilities in the process.

The bear case for SHOP stock

In the last two years, Shopify's sales have increased from US$1.57 billion in 2019 to US$4.6 billion in 2021, indicating an annual growth rate of 71%. While the COVID-19 pandemic acted as a massive tailwind for Shopify, analysts expect its revenue to decelerate in the next two years.

According to consensus forecasts, Shopify's sales might rise by 31% in 2022 and by 32.8% in 2023. As Shopify is reinvesting heavily in capital expenditures and marketing activities, its adjusted earnings per share might also decline this year.

Despite the weakness in Shopify stock, it continues to trade at a premium. SHOP stock is valued at a forward price-to-sales multiple of 12.5 and a price-to-earnings multiple of over 150, which is quite expensive.

The Foolish takeaway

While Shopify shares trade at a premium, investors should understand it's impossible to time the bottom. So, every major correction in stock prices should be viewed as a buying opportunity. Analysts remain bullish on Shopify stock with a 12-month average price target of US$1,200, which is almost 100% above its current trading price.

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