



## Is it Finally Time to Buy Shopify (TSX:SHOP) Stock?

### Description

It has been nearly five months now that **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has consistently traded weak. Many have kept hoping for its grand recovery, but the stock's dip just kept getting deeper. It has dropped a remarkable 67% since its all-time high in November last year — the biggest drop in Canada's leading wealth creator since its IPO.

### What's next for SHOP stock?

Interest rate hikes and Q4 2021 earnings weighed on the stock during this period. The e-commerce giant saw an exceptional growth period during the pandemic. But as things normalize, the company will soon witness normalized growth that's relatively lower than in the last two years. So, the valuation de-rating has been evident in the case of Shopify. And now seems an opportune time to get on board after a steep correction.

Though recent quarterly numbers were historically lower, Shopify still seems to be on a growth path. Its Q4 revenues grew 41% year over year, relative to its historical average of 60%. Its gross merchandise volume (GMV), the total dollar value of orders facilitated on the Shopify platform, [increased](#) 31% during Q4 2021. For the same period, its historical average comes around 64%.

The final stain was on the bottom line, with a net loss of US\$371 million for the quarter, against a US\$124 million profit a year earlier. So, the correction was evident amid poor numbers and a lack of COVID-related triggers for the future.

### Shopify: Growth outlook

Shopify's Q1 2022 earnings, to be released on May 5, will be an important trigger for the stock. The management has already declared that its revenue growth in the first half of 2022 will be lower, as there will not be a COVID-driven push. Also, capital expenditures are expected to increase this year, mainly for fulfillment networks and global expansion.

Like many other companies, Canadian commerce enabler Shopify will start a new growth chapter post-pandemic. Perhaps, the growth from here on out will not be as steep as in the last two years.

Still, the company expects a decent 30-35% annual revenue growth for the foreseeable future. It continues to operate at a handsome 50% gross margin, which is higher than many of its peers. Plus, Shopify has a solid balance sheet, with US\$7.8 billion in cash and investments, enough to fund its growth projects.

Moreover, the company's operations, product range, and merchant base are expected to increase steadily. Shopify's market share in the U.S. retail e-commerce market increased to 10.3% last year from 8.6% in 2020.

Shopify continues to remain a merchant-friendly brand that keeps improving its platform features. It will be interesting to see how its customer-facing app goes.

## Valuation

[SHOP stock](#) is currently trading 31 times its earnings and looks reasonably valued for a growth stock. Its price-to-sales valuation comes around 16 times — a valuation not seen in the last four years. However, muted growth in the first half of this year and [faster-than-expected rate hikes](#) could still weigh on the stock.

So, SHOP stock does not seem to be on the way up from these levels, even after a massive correction. However, this seems like an interesting level that one could start accumulating it.

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