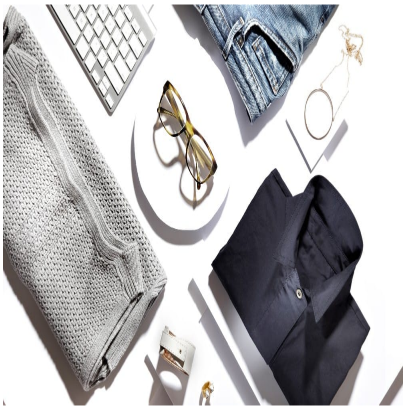

Should You Buy Shopify Stock Ahead of Earnings?

Description

It would be an understatement to say that **Shopify** (TSX:SHOP)(NYSE:SHOP) stock has had a rough year so far. It has fallen to levels last seen in 2020. Year to date, Shopify stock has dropped more than 60%. Despite that poor performance, many investors continue to watch it very closely. The company is expected to report its first-quarter earnings on May 5. With that in mind, should you buy Shopify stock ahead of earnings?

What has happened recently?

Amid all of Shopify's volatility, institutional and retail investors alike are struggling to figure out where it should trade. During its most recent earnings call, Shopify reported a beat on both revenue and earnings per share. However, the company stated that it expects growth rates to slow down to pre-COVID levels. As a result, Shopify saw its stock plunge nearly 6% following the call.

In the weeks following, institutional investors have mostly trimmed price targets on Shopify. That has added to the stock's volatility. Yesterday, Roth Capital trimmed its Shopify price target to US$625.

What's interesting is that Shopify continues to improve its business with each passing week. Earlier this month, Shopify announced that it would be partnering with Strike. This deal would allow merchants to accept **Bitcoin** payments using the Lightning Network. This week, Shopify was rumoured to be interested in acquiring Deliverr in a US$2 billion deal. That acquisition would help Shopify use machine-learning to optimize its fulfillment services.

Is Shopify's business still strong?

Over the past few years, Shopify has seen its financials skyrocket as a result of the COVID-19 pandemic. In 2020, the first year of the pandemic, Shopify saw an 86% year-over-year increase in its revenue. That was driven by a 96% increase in gross merchandise value. Today, Shopify's annual revenue has surpassed US$4.6 billion, making it one of the most dominant companies in the e-commerce space.

However, there is the question of what will happen once its growth rate slows down. What's important to note is that the company expects that it'll continue to grow. A slowing growth rate doesn't imply that its revenues will decrease. It simply suggests that revenues won't grow as fast as it has been over the past couple of years. Since Q4 2016, Shopify has never seen a decrease in its monthly recurring revenue. But investors can already start to see this figure level out in its latest earnings presentation.

In my opinion, Shopify's business is still very strong. It's also well positioned to take advantage of a growing e-commerce industry.

Should you buy Shopify stock?

Entering this year, I'd stated that Shopify would be my top growth stock for 2022. I still believe that over the long term, this is one of the most appealing companies on the **TSX**. However, over the short term, Shopify could face many headwinds. If you plan on holding Shopify for many years, this is a great opportunity to buy shares at a discount. If you're planning on a shorter investment timeframe, it may not be a great idea to buy the stock ahead of earnings because of the extreme volatility that the stock has exhibited recently.

CATEGORY

1. Investing
2. Tech Stocks

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