



## Shopify Stock: How Low Will it Go?

### Description

Canadian growth stocks have been in a world of pain over the past few quarters, with none other than TSX tech darling **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) paving the way lower.

Indeed, it's not a great situation to be in for Canadian investors who've flocked to the e-commerce firm for their [tech](#) exposure. Though the top Canadian growth play does have a considerable amount of bounce-back potential, given analyst estimates are still quite elevated, I think investors must watch out for what could be a queue of downgrades over the coming weeks and months.

Regardless, Shopify is still a great business over the long run, with a top-notch management team. And the recent decline will eventually overextend itself.

## Shopify stock caught in the crosshairs of a vicious growth stock selloff

Shopify, the business, is still firing on all cylinders, even though the recent quarter revealed a bit of softness as a result of unfavourable comparables on a year-over-year basis. Add the potential for an economic downturn (a recession in 2023?) in the equation, and it's clear that Shopify stock does deserve to trade at much lower multiples. At these levels, though, I think the name has been oversold and may be overdue for a bounce once this tech-driven selloff finally concludes.

With **Morgan Stanley's** Mike Wilson warning that the S&P 500 could fall into a bear market, risk-on growth stocks could tumble further into the abyss. Indeed, rate hikes are not good news for the hottest of growth stocks. And here in Canada, Shopify is one of the growthiest household names.

In this piece, we'll look at Shopify stock and determine whether the falling knife is worth reaching towards to play a potential growth bounce.

## Shopify stock: In free-fall mode

At around \$580 and change per share, Shopify stock has now shed a grand total of about 73% from its peak. That's a substantial drawdown to say the least. But shares aren't close to being cheap, at least through the eyes of a value-conscious investor. Shopify trades for just north of 12 times sales. That's pretty much in line with most other high-tech growth stocks these days. The major concern with Shopify, though, is if the company can reaccelerate its top-line growth going into what now appears to be a perfect storm of headwinds.

With rates rising faster, investors aren't as willing to pay up for sales growth. Further, they will not be nearly as forgiving if a company fails to impress in its quarterly earnings. Now, the valuation reset has lowered the bar ahead of first-quarter numbers. Still, an economic downturn will not bode well for online retailers as a whole.

As analysts look to re-evaluate their models, I wouldn't look to buy the dip in SHOP stock quite yet. It's falling too fast, and knife-catchers could risk getting hurt over the near term.

If central banks can't engineer a soft landing and a large chunk is taken out of GDP, there's a chance that Shopify stock could test the 2020 lows of around \$500 per share this year. At such a level, I'd be more willing to jump in. But for now, Shopify stock is a name to keep on your radar.

## The bottom line

There's nothing fundamentally wrong with the company. It's finally running into an environment where the winds are [facing its head](#) rather than its tail! And with that could bring forth an entry point not seen in many years.

Canadians who missed the Shopify boat over the years may finally get a chance to punch their ticket at a reasonable valuation, perhaps even at a single-digit price-to-sales multiple.

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