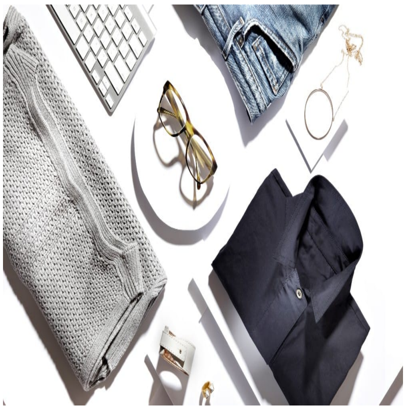

Shopify (TSX:SHOP): How Low Can it Go?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) reached lows last week that few thought it could ever go to. It closed Friday on the TSX at $487, down nearly 70% for the year. Few could have seen this coming in 2020. Shopify was a major COVID-19 winner stock, as it got a huge boost from the pandemic's retail closures. With many brick-and-mortar businesses shut down, customers had nowhere to go but to shop online, and Shopify benefited from that in a big way. In the four quarters from Q2 2020 to Q1 2021, SHOP's revenue grew by more than 90% each time.

That was then; this is now. Shopify's most recent earnings release was panned by the markets, as it featured the company's slowest revenue growth ever. Not only did the company's most recent quarter show deceleration, but it also saw a net loss. In this article, I will explore the factors that led Shopify to sink so deep and ask whether it can drop further.

Shopify's recent earnings

SHOP's selloff has been going on for a good while now. It began in November 2021. In that month, a sector-wide selloff in tech began, and Shopify sold off with its peers. However, last week, Shopify took a dip that put other tech stocks to shame, after its disappointing first-quarter earnings release came out.

In the quarter, Shopify delivered the following:

- $1.2 billion in revenue, up 22%
- $344 million in subscription revenue, up 8%
- $637 million in gross profit, up 14%
- A $1.5 billion GAAP net loss
- $25 million in adjusted net income

The majority of these figures disappointed investors. The revenue growth was the slowest in Shopify's entire history as a public company, and the net loss was massive. The losses did include a lot of mark-to-market losses on investments, so the cash flow picture was better, but even adjusted earnings shrank. So, the quarter arguably saw losses and definitely saw extreme revenue deceleration. It's not a great look.

Rising interest rates

In addition to its recent earnings release, Shopify is being hammered by rising interest rates. In 2022, both the Federal Reserve and the Bank of Canada are raising interest rates, and that's taking a bite out of the value of growth stocks. When interest rates rise, future cash flows become less valuable, and the faster the cash flows are growing, the greater the percentage impact. So, high-growth stocks like Shopify tend to get hit hard when interest rates rise.

Shopify is in the same boat as other mid-cap tech stocks when it comes to these things. It's different in that its performance is deteriorating as well. Some tech stocks are delivering solid earnings this year and are only down slightly in the markets. Shopify's most recent release was a disappointment, so it's getting punished much more than the average tech stock.

Foolish takeaway

The COVID-19 era e-commerce bonanza is over, and that's beginning to be reflected in Shopify's stock price. With revenue growth having decelerated to 22%, there is no telling where this will go. In the past, I wrote that I would be interested in Shopify at prices below $500. Today, with slower growth in the picture, I'd need a price below $200 before I'd seriously consider it.

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