1 TSX Tech Stock That Missed Earnings by a Mile

Description

Tech is perhaps the only sector that has come full circle since the 2020 crash — that is, if we judge its progress by the IT index, which has fallen quite close to the pre-pandemic levels. The fall of the sector has been sharper than the rise was. It isn't uniform across the sector and few, like the most extensive security in the tech sector by market cap — i.e., **Shopify** (TSX:SHOP)(NYSE:SHOP) — fell much harder than others.

There are several reasons why the stock fell and continues to fall after an epic run since its inception. And recently, another reason has been added to the others: poor earnings.

Earnings report

Despite the company's transparency about weakened growth prospects right after the pandemic, when the reversal from online to brick-and-mortar became the natural order of things, experts had relatively high hopes for this e-commerce giant's first-quarter earnings. The adjusted earnings per year were expected to be $0.64, and the company missed that mark by a lot.

The $0.20 earnings it posted is less than a third of the expected levels. The revenue also fell short but by a relatively small margin.

The stock dropped right after the earnings were posted and became another blow to the already beaten-down stock. However, the company's leadership is still hopeful, and it doesn't seem like naïve optimism.

Even though the public has been returning, perhaps more actively, to the brick-and-mortar versions of the businesses, the importance of e-commerce hasn't diminished. It has just become more paced, especially compared to the pandemic level.

The e-commerce adaptation pace is expected to make an organic recovery. As more businesses start developing or improving their online front, the financially healthier companies like Shopify are expected to become.

Should you buy the dip?

Yes, but that doesn't mean you should buy now. The dip *might* continue for a while, and once you are sure of the depth, buy-and-hold Shopify long term. Recently, the company has made a costly acquisition (Deliverr), a U.S.-based fulfillment centre. This is one of the things weighing down the company's financials, though not as much, thanks mainly to the company's magnitude.

Also, a few things indicate that the Shopify fall might continue for a while more. One is the current valuation. Shopify was almost undervalued before the recent earnings report, and it's not back to being massively overvalued.

Another factor is the current geopolitical landscape, which can trigger a logistic nightmare with a significant shift in the wrong direction. That can have unprecedented consequences for e-commerce.

So, Shopify stock might dip further, and when it reaches its full depth, buying and holding it long term can be smart.

Foolish takeaway

Shopify has fallen harder than most tech stocks, but the chances of recovery are just as brighter. If it drops down to about $400 a share, and there is a decent probability that with adequate growth, the stock *will* reach its former peak, you can grow your investment by about five-fold.

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