Is Shopify (TSX:SHOP) Stock Finally Good Value Now?

Description

Business has not been doing too well for **Shopify** (TSX:SHOP)(NYSE:SHOP). After putting up several consecutive years of explosive returns on the stock market and reaching unimaginable valuations, the time for reckoning appears to have come for the blue-eyed darling on the **TSX**.

Shopify stock trades for $466.30 per share at writing, representing a massive 78.21% decline from its all-time high in November 2021. Is Shopify stock an undervalued stock that you should buy immediately, or should you avoid placing any bets on the company, which managed to become the largest market Canadian stock by market cap in just a few years?

Shopify

Shopify stock has been a clear winner for many investors in recent years after putting up year after year of stellar returns. However, the e-commerce giant has been going through the worst period, seeing the most significant downward correction it has experienced after going public.

The problem right now has been a substantial drop in its earnings and profitability. The company has decreased its earnings estimates for the upcoming quarters and years. Shopify still has growth opportunities, but the company has been increasing its capital expenditure to chase the growth.

The additional expenditure has been taking a hit on the company's near-term profitability, warranting caution among investors.

One of the biggest risks when Shopify emerged into the mainstream was the competitive nature of its business. The fact that a large portion of Shopify's clientele comprised smaller clients was another point of concern. The company managed to rake in substantial profits and growth through the years, despite these fears, and saw a considerable boom due to the tailwinds created by the pandemic.

Unfortunately, the post-pandemic cooldown in the e-commerce industry has combined with several other factors to create issues for Shopify. Many of its customers are likely going to be impacted by the headwinds generated by inflation and rising interest rates.

If a large portion of the company's clientele cannot afford to keep using its services, the e-commerce giant could lose a lot of revenue in the coming weeks. The fact that it already has paltry profit margins could result in substantial losses for the company.

Foolish takeaway

The tech sector selloff has undoubtedly gotten many value-seeking investors observing the sector for opportunities that could provide them with stellar shareholder returns after a recovery, whenever that might happen. Shopify's performance through the years makes it an attractive investment to consider for many Canadian investors.

However, Shopify might not provide the same type of returns that the e-commerce giant delivered to its earliest investors when it went public. It remains to be seen how the situation plays out for Shopify stock. There is an inherent risk involved with any asset on the stock market, but some assets pose a greater capital risk than others due to macroeconomic factors.

Risk-averse investors might want to steer clear of investing in Shopify stock, because there is a chance that it might lose more value in the coming weeks before it regains momentum on the stock market.

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