



Shopify Stock: Can it Stay Above \$400?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has lost [new investors](#) a considerable amount of money amid its more than 80% crash from peak to trough. Undoubtedly, Shopify's outstanding CEO and founder Tobias Lütke questioned bearish Wall Street analysts amid the brutal tech selloff.

Understandably, it's annoying to see many bullish analysts suddenly lower the bar on their year-ahead price targets just because shares have fallen substantially. Indeed, other analysts may have downgraded the stock, mostly due to broader macro events. It's easy to lower the bar on a recommendation well after a crash has already happened to avoid being caught offside.

Lütke's call for analyst accountability is loud and clear. Unfortunately, even bullish calls don't seem to be able to save those sagging shares of Shopify anytime soon. As negative momentum snowballs down the hill, it may be wise to dollar-cost average (DCA) your way in, rather than making a big bet all in one go. The fact of the matter is, nobody knows when Shopify stock will begin to bottom out.

How Shopify stock can finally form a bottom

The bottom could already be in, or the stock could get cut in half again. At around \$400-450 per share, there is a relative level of support that investors may wish to nibble on. However, it'll be tough for Shopify stock to truly bottom out unless rates go no higher. For rates to steady, inflation needs to show signs that it's ready to plunge, perhaps as quickly as it rose last year.

With the Fed more than willing to hurt the economy to get rid of all the inflation, tech stocks have continued to be toxic. Though Shopify is busy working on innovations behind the scenes, it seems like investors simply do not care anymore — not with rates rising and a recession looming.

Are there any catalysts on the horizon?

After an 80% drop, Shopify is now a \$52.5 billion company, with a digestible 8.5 times sales multiple. There's no question that SHOP stock is getting cheap. Though the name is still a tad on the pricey side

on an earnings and cash flow basis (164 times cash flow and 268 times earnings), there's still a lot of growth to be had.

With a recession likely for 2023, though, Shopify's growth could grind to a halt. Such a growth slowdown will look like the firm's growth days are behind it. However, they could easily reaccelerate on the back of the next bull market and economic expansion.

In any case, it's not going to be an easy year for Shopify stock, as it grapples with what seems to be the perfect storm of headwinds. In 2020, it was the perfect storm of tailwinds. Now, the company will be swimming against the tide. Fortunately, Shopify's total addressable market (TAM) is still sizeable, and the company is going after it, with new features to make the lives of merchants easier.

For now, there are a limited number of catalysts for the stock, in my view. When it comes to hard-to-value growth companies, it's all about inflation. If inflation backs off over the coming months, look for Shopify to bounce back, perhaps towards \$700. However, if inflation remains stubbornly persistent, Shopify stock's \$400 level of support could break, and shares could risk falling to the \$200-250 range.

The stakes are high with Shopify stock, but young, long-term investors may wish to start nibbling today.

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