



Has Shopify Finally Bottomed Out?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) has been having a tough time this year. The stock fell 73% from top to bottom and may still have further to fall. The company is being hammered on several fronts this year. First, central banks are raising interest rates, making growth less appealing. Second, tech stocks are selling off, leading to sales by tech ETFs. Third, we may be entering a recession, which would likely hurt SHOP's top line if it came to pass. It's a triple whammy of challenges for the company. The question is, has Shopify finally bottomed, or does it have more pain to come?

Why Shopify fell so much this year

Shopify stock has fallen for a number of reasons, most of which I mentioned in the introduction. One further reason merits exploring in detail: the first-quarter earnings release.

When Shopify released its first-quarter earnings a few weeks ago, it missed on both revenue and earnings. Revenue grew by only 22% (in 2020, the growth rate was 86%), and the net loss was one of the biggest in the company's history. Now, 22% might sound like good growth, but remember that Shopify was priced expecting much better growth than that. When investors expect 50% growth, 22% growth is a disappointment. So, it shouldn't come as a surprise that SHOP stock fell. Its revenue growth slowed dramatically in the span of just one year.

Valuation

One reason why Shopify's earnings release was so disappointing was because of the company's valuation. Shopify stock has always been expensive, and it's still relatively costly today. At today's prices, SHOP trades at

- 80 times adjusted earnings;
- 255 times GAAP earnings;
- 9.6 times sales;
- Five times book value; and

- 147 times operating cash flow.

These are very high multiples. And they were recorded *after* the [massive selloff in Shopify stock](#) we're witnessing. Before the selloff, this stock was trading over 50 times earnings. You've got to expect that a stock with that kind of price tag will come down. Spectacular growth can't continue forever, and Shopify, sure enough, obeyed the law of gravity once the [tech correction](#) hit in November of 2021.

So ... have we seen the bottom yet?

Having looked at the factors that are taking SHOP stock lower this year, it's time to ask the all-important question: *has the stock bottomed?*

We can never be sure, but my personal hunch is that it hasn't. Shopify stock is still extraordinarily expensive, and its revenue is decelerating more than ever before. In its most recent quarter, subscription revenue only grew at 8%. Overall revenue growth was faster than that, of course, but it's a bit discouraging that Shopify's "bread-and-butter" revenue stream is so sluggish.

That doesn't mean that this stock is going to zero, or anything. Given last quarter's growth rate, SHOP would be pretty interesting at a price of, say, \$200. At that price, the price/sales ratio would be lower than five, and Shopify's top-line growth is still above average. So, Shopify is not finished by any stretch of the imagination. It's just going to take while before it re-takes its all-time highs.

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