



## 3 Reasons I'm Taking a Raincheck on Shopify Stock

### Description

The wreck in **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has been nothing short of unprecedented, with the e-commerce darling now down around 80% of its value, following yet another big down day to end last week. Many Canadians likely have exposure to Shopify shares, either directly or indirectly via Canadian mutual funds. Indeed, it feels like quite a while ago when SHOP stock boasted the largest market cap in the country. As rates surged and retail experienced a slowdown, many were quick to take some profits on their Shopify stakes.

Indeed, the valuation has contracted quite a bit, but just because shares have lost 75-80% of their value doesn't mean a bottom is close. Sure, we're closer to a bottom than many months ago, but it's really hard to gauge how deep the abyss can go, with all the fear of higher rates.

### Stagflationary headwinds could weigh

Undoubtedly, Shopify stock will have a heavy weight on its shoulders until inflation shows some sign of cooling down.

With U.S. inflation recently climbing to 8.6% — yet another high — there's fear that inflation's persistence could cause rates to settle at much higher than 3%. It's a tough situation to be in for many [beginner investors](#) who've not had to deal with the insidious effects of elevated inflation in the past.

A severe consumer recession could result in substantial sales and earnings multiple expansion over the coming quarters and apply further negative momentum to the stock.

### The valuation remains elevated

Even after an 80% plunge, Shopify stock still doesn't look all that cheap at 9.1 times sales and over 200 times trailing earnings. Undoubtedly, Shopify is a premier growth company that deserves a premier growth multiple.

However, it's unclear as to just how much of a premium investors should be willing to pay. As the stock looks to settle into its new valuation range, we'll eventually get an answer. However, until then, Shopify stock could be a name in the midst of a volatile valuation reset.

## Amazon could make growth harder to come by

Shopify has done a great job of holding its own against some pretty fierce competition in the e-commerce space. Still, **Amazon** ([NASDAQ:AMZN](#)) is a digital retail behemoth that a firm like Shopify needs to continue keeping tabs on. It's a disruptive force, and its "Buy with Prime" feature will be hard for Shopify to stack up against. Though I do not view Amazon or any other Shopify rival as an existential threat, I think Shopify needs to stay agile if it's to keep competitors at bay.

Fortunately, Shopify has the agility and exceptional stewardship to make it through another round in the thing with the likes of an Amazon. Innovation is key to staying ahead, and with special "founder shares," Shopify is unlikely to play it safe as it looks to out-innovate its peers.

## The bottom line

Though Shopify is a great company, with a legendary CEO in Tobi Lütke that investors still trust, the road ahead seems uncertain, making shares difficult to value. It will be interesting to see how the firm responds to potential challengers hungry to take a bite out of its share of the small- and medium-sized business space.

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**Date**

2025/08/28

**Date Created**

2022/06/13

**Author**

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