This Growth Stock Could Rebound by 2023

Description

Investors have pivoted from growth stocks to value stocks this year. The days of betting on unprofitable companies with sky-high valuations are over. Now, investors are seeking out free cash flows, low debt, and reasonable valuations.

However, just because a company is growing rapidly doesn't mean it's unprofitable or cash flow negative. In fact, the country's most well-known growth stock is profitable, cash flow positive, and now trades at a better valuation.

Here's a closer look at why **Shopify** (TSX:SHOP)(NYSE:SHOP) could rebound by 2023.

Shopify stock

Shopify was the country's most valuable firm just seven months ago. Since then, it has nosedived. At the time of writing, each share trades at $400 — 81% lower than its all-time high.

That correction is driven by Shopify's slowing growth and the ongoing bear market in the tech sector.

The Shopify team has informed shareholders that the pandemic-era growth spurt isn't likely to last. The company's revenue expanded 110% in the first quarter of 2021. This year, revenue grew just 22% over the same period.

Meanwhile, investors are retreating from e-commerce and payment technology companies this year. Nearly every tech stock is down by a similar amount in 2022. This dip is likely to be much more painful for companies without cash on their balance sheet. However, Shopify is in a robust position to weather the storm.

Cash

Over the past 12 months, Shopify generated $317 million in free cash flow. That's not a huge amount, but it’s better than most tech companies that are fundamentally unprofitable.

Free cash flow signals the fact that Shopify can self-fund its expansion. In a market downturn, the company doesn’t need to raise debt or sell shares to keep funding its operations.

In fact, the company issued shares at the height of the bubble, raising billions of dollars from the market. At the end of March 2022, Shopify reported US$7.25 billion or $9.4 billion in cash on its books. That cash ensures the company’s survival during the downturn and helps it acquire beaten-down tech startups like Deliverr to boost its operations.

Valuation

Cash represents 20% of Shopify’s current market value or roughly $80 per share. Meanwhile, the stock is trading at 5.3 times forward revenue. Last year, this ratio was as high as 60!

The company could face some headwinds in the near term, as consumer spending declines. But if it can sustain a 20-30% growth rate over the next five years, as the management team predicts, the current valuation is justified.

Put simply, the stock is much more attractive for investors seeking a long-term growth bet. Shopify stock could rebound by 2023 when the economic headwinds clear.

Bottom line

A slowdown in sales growth and a shift in investor sentiment has pushed Shopify lower this year. In fact, Shopify stock is now cheaper than it was in 2019 — before the pandemic erupted. However, the company has enough cash to survive the downturn and sustain its pace of steady growth. Long-term growth investors should keep an eye on it.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vraisinghani

Category

1. Investing
2. Tech Stocks

Date
2025/08/28
Date Created
2022/06/15
Author
vraisinghani