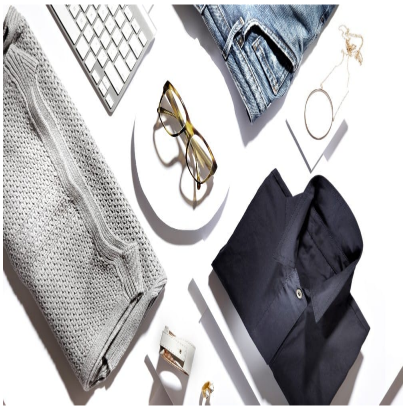

Shopify Stock: Will the Bleeding Stop?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock is taking a beating this year. As of this writing, it was down 73% from its price at the start of the year and 80% from its all-time high. Although SHOP is still a very fast-growing company, its most recent earnings release was disappointing, featuring slower revenue growth and a large net loss. The 22% revenue growth rate was good in absolute terms but lower than what analysts expected. The stock sold off after it came out.

The question today is, “Can Shopify turn it around?”

We are currently in the midst of an economic slowdown affecting both the U.S. and Canada. Consumers are cutting back on spending, and that could take a bite out of SHOP’s revenue growth. If it does, then we should expect more downside from SHOP when the next quarterly release comes out.

Why SHOP is falling this year

Shopify stock is falling primarily for two reasons:

1. Sector-wide selling in tech stocks.
2. A disappointing first-quarter earnings release.

The first of these is pretty easy to explain. Stocks are correlated with other stocks, especially other stocks in the same industry. Technology stocks are falling this year largely due to rising interest rates, and Shopify is selling off much like other stocks that are similar to it. That’s not surprising. What IS a little surprising is just how far SHOP has fallen — 80% is much worse than the NASDAQ’s selloff. So, we need to look at a more specific reason for SHOP’s crash.

The first-quarter earnings release is a solid explanation for the severity of Shopify’s crash. Prior to the crash, Shopify was a very expensive stock, trading at over 50 times sales. Today, it is cheaper — both in price and compared to sales/earnings — and that may be due to the first-quarter earnings release.

In the first quarter, SHOP delivered its slowest revenue growth in its history as a public company, grew subscription revenue by just 8%, and ran a $1.5 billion net loss. It was probably the company's worst earnings release ever. It missed analyst estimates and the guidance wasn't great either. It was probably the single biggest contributor to Shopify's unprecedented selloff in the first half of 2022.

Earnings just around the corner

Speaking of earnings, we will soon get to see how Shopify's second quarter shaped up. On July 27, the company will be publishing its second-quarter earnings release, which will show any impacts the company may have taken from the slowing economy. We know that tech stock performance was weak in Q2, so SHOP's GAAP earnings are almost guaranteed to be bad (Shopify owns tech stocks and GAAP earnings include stock price fluctuations). However, we could be pleasantly surprised in other ways. Shopify has managed to beat the odds before, and Canada's most recent GDP reading did not indicate a coming recession. We'll have to wait and see how the U.S. economy is doing, but maybe — just maybe, the economy isn't as bad as we think.

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