Shopify (TSX:SHOP) Stock Recovers 30% From its 3-Year Lows: Should You Buy?

Description

This has been a terrible year for growth investors so far. After two years of massive outperformance since the pandemic, the year 2022 has brought in some severe weakness. In fact, some of the TSX tech stocks have been butchered so badly that they now seem fit in the value category. Let's see if **Shopify** (TSX:SHOP)(NYSE:SHOP) is one of them.

Shopify stock: Buy the dip or wait for more weakness?

Canadian tech titan Shopify has seen one of the most unexpected declines amid this tech rout. It has dropped more than 75% since November 2021, notably underperforming peer TSX tech stocks. Also, this drop is more severe than its peers south of the border.

Note that SHOP has soared 30% from its three-year lows in the last couple of weeks. Whether this recovery forms into a full-sized rally remains to be seen.

It's almost clear now that Shopify will not see its pandemic-era growth going forward. And it's imprudent to expect that from the e-commerce enabler. So, the valuation moderation is much on the expected lines. It is currently trading at a price-to-sales ratio of 12, lower than its historical average. At the same time, it should also be noted that SHOP is seeing slower growth than it has seen in the past. That does not make it an unattractive bet. It will still likely see industry-leading growth going forward.

And why is that, exactly?

Strong financials and growth prospects

Shopify saw its revenues surge 22% in Q1 2022 year over year. This was a pretty low number against its previous record of having triple-digit revenue growth during the pandemic. Its gross merchandise volume increased 16% during the first quarter. However, this does not seem too bad considering the absence of COVID-related growth triggers. Its increasing market share in U.S. retail e-commerce spending should bode well for its long-term earnings growth.

Also, its latest announcement of tapping into B2B operations opens up a whole new high-growth addressable market. The company has a significant presence in B2C operations, and the new foray will likely keep away competitors and will provide a new growth trigger to its slowing top line.

In addition, Shopify will likely see its fulfilment network gaining steam with the latest Deliverr acquisition. It’s been years since Shopify announced its plans for a fulfilment network. The company will spend around US$1 billion in the next two years to reduce the complexities in the fulfilment network and building warehouses.

Apart from the operational appeal, Shopify also has a strong balance sheet with a solid liquidity position. It has a total debt of US$1.1 billion and a strong liquidity position of US$7.2 billion in cash. This balance sheet strength should aid the company in inorganic growth.

Bottom line

Shopify might not witness a sprinting recovery from its current levels. Broad market pressures, especially when faster, bigger rate hikes are coming, will likely make growth stocks vulnerable. However, Shopify’s expanding merchant base and product offering should drive meaningful growth in the long term. The management plans to invest all its gross profits into its geographical expansion and development of new products. So, after a steep correction, SHOP stock looks attractive at these levels for long-term investors.

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. vinitkularni20

Category

1. Investing
2. Tech Stocks

Date
2025/08/28
Date Created
2022/06/27
Author
vinitkularni20