



Shopify (TSX:SHOP): Why Did it Fall So Violently in 2022?

Description

The [technology sector](#) was high and mighty in 2019 and 2020 with its 60.2% and 80.3% annualized price return, respectively. It was also the period when **Shopify** ([TSX:SHOP](#)) ([NYSE:SHOP](#)) rose to become the TSX's e-commerce software powerhouse.

From a total return of 37.08% in 2018, Shopify's percentage gains in the next two years were 187.17% and 184.71%. However, the back-to-back feat didn't sustain, as the yearly return dropped to 21.68% in 2021. On January 5, 2022, **Royal Bank of Canada** reclaimed the throne from Shopify as the most valuable publicly listed company in Canada.

As of this writing, Shopify's market capitalization is down to \$58.82 billion from \$190 billion early this year. Moreover, the share price of \$480.70 is 72.4% lower from year-end 2021. Can the tech superstar recover from its violent fall in 2022?

Tech wreck

Shopify's reign on the TSX seems for good when its market cap rose to nearly \$200 billion more than two years ago. Unfortunately, the champion of the digital economy wasn't spared from the tech wreck. With rising inflation and tightening monetary policies to start 2022, growth-oriented companies fell by the wayside.

The benefit from the low interest rate environment was gone and tech companies relied on debt to fund their growth initiatives. Had you invested \$25,000 one year ago, your money would be worth \$6,514.72 today. Shopify's downfall began on February 16, 2022, when management warned of slower revenue growth going forward.

Absence of tailwinds

During the earnings release for Q4 2021, the statement of the tech phenomenon read, "COVID-19 triggered acceleration of e-commerce that spilled into the first half of 2021 in the form of lockdowns and

government stimulus will be absent from 2022. There is caution around inflation and consumer spend near term, for the full year.”

In Q1 2022, Shopify incurred a net loss of \$1.5 billion as against the net income of \$1.3 billion in Q1 2021. Based on estimates by *The Globe and Mail*, the loss in market value since the start of 2022 is a staggering \$155 billion, more or less. With the pandemic threat significantly diminished, consumers’ return to brick and mortar will weaken e-commerce further.

Apart from inflation, the e-commerce space is beset with supply chain issues, if not disruptions. Notwithstanding the measured macro environment, Shopify’s CFO Amy Shapiro said, “The prospects for entrepreneurship and digital commerce are greater now than at any point in our history after two transformational years for the industry, and for Shopify.”

Shapiro expects year-over-year growth to be lower in the first half of 2022 and highest in the fourth quarter. She cited the absence of stimulus payments and expected higher inflation relative to the first half of 2021 as the reasons.

Stay long

Shopify is a TSX30 winner from 2019 to 2021, but its performance in 2022 is far from a winning form. The plunge is too nasty in that the timetable for recovery is uncertain. If you still own Shopify, the rest of the year could be more painful. The only option is to stay long and hope the rebound comes sooner rather than later.

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