Shopify (TSX:SHOP) Facing Stiff Competition: Should Long-Term Investors Be Worried?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) stock is a far cry from the incredible growth stock it was when it first went public. The momentum it gained on the stock market since its debut on the TSX told an exciting growth story more successful than most in North American equity security markets.

However, the tech sector meltdown, combined with macroeconomic factors, has made it one of the worst-performing stocks for several months. Shopify still has one of the most impressive track records among publicly traded companies, but its performance has become too volatile for stock market investors seeking safer investments.

The company's prolonged downturn has made it an even riskier investment in a market environment where inflation is rampant and interest rate hikes slow economic growth.

Shopify stock's downward momentum has cooled off, and its price movement on the TSX has become more horizontal in the last few weeks. However, there might be more reasons to be worried about investing in Shopify stock at current levels.

Stiff competition from a larger giant in the industry

Amazon.com (NASDAQ:AMZN) is undoubtedly *the* force to be reckoned with in the e-commerce space. Its sheer size and economic strength make it the dominating presence in the industry, and it is gearing up to recapture its market share of small- and medium-sized businesses (SMBs) in the e-commerce industry.

Shopify managed to push the giant aside earlier and carve out a place for itself in this niche in the e-commerce space. However, it was a difficult feat to accomplish — something that seems impossible right now, considering the financial strength of the American company and its growing popularity.

Amazon Prime users enjoy loads of benefits that make them loyal to Amazon, and the giant is planning to roll out a service that will attract more merchants to its platform as opposed to working with Shopify.

The Canadian tech sector's darling stock did acquire Deliverr, an order fulfillment firm that can help Shopify compete with Amazon. However, the US$2.1 billion deal might not give Shopify everything it needs to remain competitive with Amazon. Increasing its capital investments to put up a better fight against Amazon will require making more sacrifices, which might not go well with investors.

Foolish takeaway

Amazon's latest offering has put it in a position to reassert its dominance in the e-commerce industry and made it a more attractive platform for SMBs to consider. The decision to challenge its significantly smaller rival might allow Amazon to budge Shopify aside and leave it behind. However, it remains to be seen how Shopify's efforts to counter Amazon's new service will play out.

Shopify stock trades for $40.17 per share at writing, down by almost 82% from its 52-week high. If you are bullish on Shopify's long-term prospects, it could be a steal at its current levels. However, you should know that it is by no means an undervalued stock right now.

It trades for a 280.52 price-to-earnings multiple and 9.31 times sales, despite its steep decline. Shopify might be too expensive a stock to invest in at current levels considering its risks.

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