Shopify (TSX:SHOP) is Down by Over 70%: Can it Recover?

Description

The Canadian tech sector has been one of the top-performing segments of the Canadian economy for the last few years. 2018 was one of the worst years for the **TSX** as the **S&P/TSX Composite Index** saw an overall 11.6% loss. The decline was attributed to a correction in nine of the 11 primary sectors of the economy.

However, the Canadian tech sector registered an annualized price return of 11.7% that year. The next year the Canadian benchmark index posted a 19.1% gain, with the tech sector leading the charge with a 60.2% gain.

2020 came with a black swan event as the pandemic triggered a massive selloff in stock markets during February and March 2020. However, the TSX quickly recovered in the weeks following the dip. Unsurprisingly, it was the tech sector, led by **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP), that delivered stellar returns, keeping the benchmark index afloat.

However, the picture is vastly different right now for Shopify stock and the tech sector at large. At writing, the **S&P/TSX Capped Information Technology Index** is down by 36.2% year-to-date, and Shopify stock is down by 72.8% in the same period.

Is Shopify stock an undervalued stock at current levels that could post a significant recovery? Will it lead the charge for the tech sector's recovery?

A stellar run and drastic decline

Shopify went public in mid-2015, and its earliest investors saw unimaginable annual returns on their investments until 2021. From 2016–2020, the stock of the e-commerce giant posted a 5-year annual average return of 113% but a relatively meager 21.7% in 2021. Currently trading at a discount of over 80% from its all-time high, Shopify stock has lost its market-beating momentum.

The pandemic brought with it substantial tailwinds for the tech industry. However, growing macroeconomic issues started creating pressure on the entire tech sector. The industry-wide meltdown and management's outlook of lower revenue growth in 2022 resulted in a significant decline in Shopify's share price as the world moved into a post-pandemic era.

It was only natural that the growth rate would decline when the tailwinds were no longer there, but investors began losing interest in the stock.

Shopify stock generated US$1.3 billion in net income during its first quarter of fiscal 2021. It reported a net loss of US$1.5 billion in the same period for fiscal 2022. The drastic drop in its financial performance was inevitable, and market analysts do not expect the figures to improve by the next quarterly earnings report.

Foolish takeaway

The company's financial issues have forced its management to make several organizational changes. From changing its compensation packages to layoffs, the uncertainty has resulted in significant problems in its operations. However, the company's president, Harley Finkelstein, is adamant that the company will recover and come out stronger on the other side of this slump.

Shopify stock does not have a lot going for it that could make it an attractive investment at current levels. Despite a heavily discounted share price, it trades for a 248.43 trailing price-to-earnings multiple that does not qualify it as an undervalued stock. It is indeed an expensive stock to own right now. While it is unclear when the stock will recover, what is certain is that it will take time for the company to regain investor confidence.

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Author
adamothman