Should You Buy Shopify (TSX:SHOP) Stock Before Earnings?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) is an Ottawa-based company that provides a commerce platform to North American and international customers. This e-commerce stock proved to be one of the most explosive tech stocks in North America in the latter half of the 2010s. However, it has suffered a major downturn in the first half of this new decade.

Indeed, the company has drawn comparisons to another Canadian cautionary tale: Nortel. Nortel was a telecommunications and data networking equipment giant that saw its stock erupt during the dot-com bubble in the late 1990s. At its height, Nortel stock accounted for more than a third of the total valuation of all companies on the TSX. Its price would crater in response to falling revenues, taking many investors down with it.

Can Shopify stage a comeback after this brutal stretch? Let’s dive in.

Why this top tech stock has been throttled over the past year

Shares of this tech stock have plunged 69% in 2022 as of close on July 25. The stock is down 76% in the year-over-year period. Shopify does deserve some leeway as the TSX Index has suffered from broader volatility since the beginning of the spring season.

Fortunately, the oil and gas price boom saw the energy heavy TSX Index avoid a more significant downturn. That phenomenon reared its head in the most recent trading session. The **S&P/TSX Composite Index** increased 121 points on the day, with the energy sector delivering a 3.5% bump. However, the **S&P/TSX Capped Information Technology Index** suffered a 1.27% decline.

Beyond market volatility, Shopify has also been the target of short-sellers. Short-selling involves borrowing a security and selling it with the intent of buying it at a lower price at a later date. When it works, the short-seller can collect profits after repaying the loan. Prominent short-seller Andrew Left of Citron Research called the company "dirty" and a "get-rich-quick scheme." There have been looming questions over its financial reporting regarding its merchants in recent years. Shrinking profit margins after the COVID-19 pandemic bump have also drawn the ire of analysts.

Is there reason for optimism for Shopify going forward?

In the middle of July, the company announced that it had cancelled fall internships and put a hold on recruiting. Shopify is not alone in the tech sector. Many companies have scaled back on hiring in the face of soaring inflation, rising interest rates, geopolitical tensions, and economic uncertainty.

Shopify is set to release its second-quarter 2022 results on July 27. This will be a big report for the company as it battles a brutal pullback. Consumers are feeling the squeeze of inflation, which is bad news for e-commerce companies that rely on an active client base. A recession, even a mild one, will be very poor timing for this company in the first half of this decade.

In Q1 2022, Shopify delivered total revenue growth of 22% to $1.2 billion. Meanwhile, adjusted gross profit jumped 14% to $646 million. Its adjusted net income was reported at $25.1 million, or $0.20 per diluted share — down from $254 million, or $2.01 per diluted share, in the previous year. Overall, the company experienced a dramatic decline in revenue and earnings-growth rates compared to past years.

Shopify: Should you buy today?

Shares of this tech stock are trading in solid value territory compared to its industry peers. Meanwhile, it is still on track for strong earnings growth. That said, Shopify is facing mounting competition in the e-commerce space. Investors should keep a close eye on its upcoming earnings report that could make or break its stock performance for the rest of the summer. I'm staying on the sidelines when it comes to this tech stock in the near term.

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