Shopify (TSX:SHOP) Stock Plunged 71% in 2022: Will it Recover?

Description

Canadian tech stocks are in the middle of a meltdown that started toward the end of 2021 and has gotten worse with passing time. Investing in technology stocks became a popular trend for Canadians seeking rapid wealth growth by putting their money to work in the stock market. However, the top picks from the tech sector have declined drastically and seem to keep getting battered.

If you invested in **Shopify** (TSX:SHOP)(NYSE:SHOP) toward the end of 2021, you are likely sitting on a massive 71.26% loss right now. Investors who established a position in the stock early in 2019 are the only ones sitting on a profit at this point with Shopify stock.

Shopify stock trades for $44.61 per share at writing, down by 75.82% from its 52-week high in November 2021. Investors might be wondering if the steep discount makes it an attractive investment at current levels. Today's post will discuss Shopify stock's outlook to help you determine whether it warrants a place in your investment portfolio.

Weaker earnings

Shopify recently announced its second-quarter earnings report for fiscal 2022, and things do not look great for the company. There might be more downside in store for Shopify stock, as inflation's impact permeates the e-commerce and retail industries.

Shopify's year-over-year revenue growth in its previous quarter was 16% — the slowest growth figures it has posted since 2014. It would not be surprising to see its revenue growth slow down to single digits in the next two quarters. Several factors have led to the company's weaker earnings growth.

Reduced overall consumer demand in the e-commerce industry due to high gasoline and food prices has shifted demand away from luxury items. The world is moving into a post-pandemic era, opting to return to in-person shopping over buying online from the comfort of their homes.

Recessionary fears in the U.S. and Canada could also negatively impact the company's outlook.

The company expects things to slow down

The second half of the year typically bears good news for e-commerce companies. The onset of the holiday season and Black Friday boost revenues. However, Shopify's recent press release states that the company expects growth to slow down.

According to the company, it expects 2022 to be different, because the e-commerce industry is adjusting to the post-pandemic world and under pressure from high inflation.

Shopify reported a US$41.8 million adjusted operating loss in Q2 2022 compared to an adjusted operating income of $236.8 million in the same quarter last year. The company anticipates its operating loss to increase further due to merchant solutions revenues bringing in lower profit margins.

Shopify has an estimated US$7 billion in cash reserves that it can deploy to offset the losses. However, it will be a challenge for the company to navigate through the situation in a recessionary environment. It remains to be seen whether Shopify stock can stay afloat in the harsh economic environment.

Foolish takeaway

Shopify has declined by almost 80% from its all-time high. Despite the massive decline, its 10.19 enterprise value-to-revenue ratio makes it an expensive stock. The stock is suffering from the impact of a tech sector meltdown and a recession. It might take a long time to recover to its 2021 levels.

There may be further downside due to the company's outlook in the coming weeks. It might not be the best investment for growth-seeking investors at current levels.

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