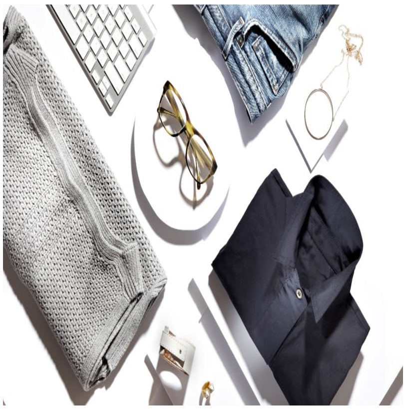

Shopify (TSX:SHOP): Much Better Than Feared

Description

Shopify (TSX:SHOP)(NYSE:SHOP) has spent the last month in an up-trend. Up 30% since its 52-week low of $40, SHOP is in a rally that's reminiscent of its glory days.

Prior to this year, SHOP stock was a heavy hitter. The company's stock rose 5,000% from its 2015 IPO to its 2021 peak. It made many investors wealthy if they sold early enough.

This year, things started to change. Shopify stock began falling in November when the rest of the tech sector dipped. Later, it put out a bad earnings release, which showed that its revenue growth had been cut in half. After that earnings release came out, SHOP started tumbling more than your typical technology stock.

Then Shopify's problems got worse. In July, the company abruptly laid off 10% of its workforce, which sent its stock tumbling. It made its low for the year shortly after that news broke. For a while there, the company looked doomed.

Later, though, Shopify put out an earnings release that piqued investors' interest again. Its stock rallied shortly afterward. In this article, I will explore SHOP's second-quarter earnings release and why it has investors feeling optimistic toward the company.

Shopify's earnings release: Not all bad

In its second-quarter release, Shopify revealed the following:

- $1.3 billion in revenue, up 16% from the same time last year.
- $107 million in monthly recurring revenue (MRR), up 13%.
- $366 million in subscription services revenue, up 10%.
- $47 billion in gross merchandise volume (i.e., total sales powered by Shopify's platforms).
- $665 million in gross profit, up 6%.
- -$190 million in operating income, down from positive profit.

Overall, the results were mixed. The company missed badly on the bottom line but showed significant growth in sales. The results didn't do much to convince anybody that Shopify's glory days are coming back, but they did prove that the company is still alive.

Can it get back to all-time highs?

Having looked at Shopify's second-quarter earnings release, it's time to ask the question, can the stock rise from here?

The answer to that question is something along the lines of "yes, but with a catch."

Shopify is growing enough that the company should become more valuable over time. 16% growth is not nothing; it's faster than most tech stocks' second-quarter growth rates. Additionally, Shopify would have been profitable in the quarter had it not been for losses on its stock portfolio and increased hiring (which has since been reversed). So, there was no disaster: the company will survive.

However, Shopify stock is still very expensive. It trades at 10.6 times sales, 5.9 times book value, and 415 times operating cash flows. These numbers all suggest that SHOP is an expensive stock. It's not as pricey as it was in the past, but it's still pricey. With 16% growth, Shopify will probably be able to rise incrementally over a long period of time. But the performance we've been seeing from the company will not take it back to all-time highs. It will be a much slower gainer going forward.

So, is Shopify stock a buy?

Certainly, it's a better buy than it looked like before earnings came out. But it's abundantly clear that this company isn't quite the growth story it once was. If you invest in SHOP, expect the stock to have much slower momentum in the future than it had in the recent past.

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