Better Buy: Shopify (TSX:SHOP) or Amazon (NASDAQ:AMZN)?

Description

The losses of technology stocks in 2022 are huge, and even sector leaders in Canada and the United States are vulnerable to the current headwinds. The **NASDAQ**, the tech-heavy index in America, is down 16.6% year to date. The **TSX's** tech sector is doing worse with -30.54% as of August 11, 2022.

E-commerce giants in particular have fallen behind following the boom of online shopping in 2020 due to the global pandemic. **Shopify** (TSX:SHOP)(NYSE:SHOP) rose to prominence and delivered a total return of 184.71% for the year. **Amazon** (NASDAQ:AMZN) also had an impressive gain (+76.26%) in the first COVID year.

Fast forward to the third quarter (Q3) of 2022, and the Canadian tech phenomenon is losing by a staggering 70.14% year to date compared to Amazon's -13.90%. While both large-cap tech stocks trade at discounted prices, which one is the better buy if investors anticipate a strong bounce back?

Steady margin expansion

In Q2 2022 (three months ended June 30, 2022), the most valuable e-commerce brand reported a $2.02 billion net loss compared to the $7.77 billion net income in Q2 2021 (all figures in U.S. dollars unless stated). For the first half of the year, Amazon posted a net loss of $5.87 billion versus $15.88 billion in net income in the same period in 2021.

Its president and chief executive officer (CEO) Andrew Jassy said inflationary pressures and logistic issues hound Amazon, although it's progressing on the more controllable costs. The bright spot is the advertising business, which has grown and continues to grow.

Brian Olsavsky, Amazon's chief financial officer, said, "When companies are looking to optimize or streamline their advertising spend, we think our products compete very well in that regard."

Michael Pachter, an analyst with Wedbush, said, “Despite inflationary pressures, a tight labor environment, and suboptimal fixed-cost leverage, Amazon delivered strong second-quarter results that benefited from elevated levels of consumer demand and better optimization of its fulfillment network.”

Pachter predicted that Amazon should benefit from steady margin expansion over the long term. The rapid growth of its cloud and advertisement businesses are growth drivers.

Transition year

Shopify’s free fall started in mid-February 2022 when management announced a slowing growth outlook this year. According to the company, there is caution around inflation and consumer spending, because the COVID-triggered e-commerce acceleration and government stimulus programs are over. It expects consumers to return to normal buying patterns.

Management reported a $1.2 billion net loss in Q2 2022 compared to the $879 million net loss in Q2 2021. Nevertheless, the quarterly results are encouraging. Total revenues and monthly recurring revenue (MRR) increased by 16% and 13% from a year ago. Notably, subscription and merchant solutions revenue grew 10% and 18% year over year.

Shopify describes 2022 as more of a transition year. Because of persistently high inflation and the reset of e-commerce to the pre-COVID trend line, management expects a different ending this year.

Critical investments

Size-wise, Amazon has a market capitalization of $1.88 trillion versus Shopify’s $51.69 billion. In 2021, the Canadian tech superstar was the better performer, with a positive return of 21.68% versus 2.38%.

The companies continue to make critical investments this year in anticipation of rapid and sustained structural e-commerce market expansion. While both tech stocks are likely to rebound, the breakout’s magnitude depends on the success of their growth initiatives.

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