Shopify (TSX:SHOP): Well-Positioned for a Massive Rally

Description

Growth stocks were kicked down in the first half, but things could change as we march into year's end. Mr. Market tends to overshoot in both directions. And right now, with investors coming to terms with where rates could be headed next, it's quite possible that the many growth darlings (even the unprofitable ones in the crosshairs of the market sell-off) may be undervalued, with room to the upside.

While it's unrealistic to expect the likes of a **Shopify** (TSX:SHOP)(NYSE:SHOP) to return to new highs (the stock lost more than 80% from peak to trough), the risk/reward and upside may still be well ahead of market expectations.

Many Wall Street analysts have been downgrading the stock in recent months over a slew of issues. As the tides turn and Shopify stock gets going again (I called the bottom in the name at around $400 per share a few weeks ago), I think we could witness a bullish reversal on upside momentum.

Indeed, it's never a good idea to re-evaluate your stock analysis through rose-coloured glasses. However, many overly bearish pundits may be inclined to change their tune after the fact. I do think Shopify could lead the rest of the market higher, after leading it into the ditch in H1 2022. At the end of the day, Shopify is a well-managed company with a large total addressable market (TAM) and the ability to stave off competitors in the e-commerce scene.

SHOP stock: Tough to value unless you believe in management

Undoubtedly, a growth firm like Shopify is difficult to value at a time like this. Shopify and names like it have been moving based on where investors expect rates to settle. With rates on the retreat over cooler-than-expected CPI numbers in the U.S., Shopify has found a means to move higher again. Though rates could swell again, perhaps on an upside surprise come the Fed's next rate hike day, I do think a bet on Shopify at these levels is a bet that the Fed will be able to pull off a soft-landing.

Indeed, it’s hard not to fall into a recession as the Fed hikes. However, Fed chair Jerome Powell has shown he’s a great pilot who may be able to pull it off after saving the markets in the depths of early 2020.

With solid jobs and cooling inflation, the stage could be set for another strong bull run. And if rates continue to descend, we may very well see the growth trade heat up again.

Shopify: Too much pain baked in

At writing, Shopify stock trades at just 10.3 times price-to-sales (P/S). That’s not only well below recent historical averages (SHOP stock once traded well north of 40 P/S), the current P/S is slightly higher than the industry average P/S of around 7.0. Many of Shopify’s peers aren’t nearly as well-positioned to grow. As such, I think Mr. Market has Shopify stock completely wrong. I view it as a firm that deserves to command a multiple of at least 15–20 times P/S.

Amid the latest slip in tech valuations, Shopify has been busy on the acquisition front, with the acquisition of Deliverr in May and Klaviyo in August. Such deals after a drastic downturn should help Shopify rise out of the recession with strength.

I’m a big fan of CEO Tobias Lütke. He has a proven track record, and is likely to navigate the company out of this horrific downturn.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. cleona
2. joefrenette

Category

1. Investing
2. Tech Stocks

Date
2025/07/04
Date Created
2022/08/15
Author
joefrenette