Here’s Why I Wouldn’t Sell This Generational Canadian Growth Stock

Description

Growth stocks have taken quite a beating in the first half of 2022, and while it could take many years for some of the hardest-hit names to recover, I think many hard-hit gems are worth buying right here. You see, the market tends to overpunish stocks on the receiving end of a selloff. With higher interest rates coming up, growth deserves to take a one-two hit to the chin.

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Higher rates mean profits in the distant future are worth far less. Further, unprofitable firms that don’t expect to make a profit anytime soon may find it difficult to continue financing forward-thinking projects. Indeed, the prospect of higher rates and harder credit can stunt innovation for small, up-and-coming firms and startups.

Growth, especially small-cap growth, is under pressure

Though various small-cap growth companies and startups that soared in 2020 and 2021, only to crash in a devastating fashion in 2022, face a much tougher climate over the next few years, their valuations may have contracted by too much, too fast.

Indeed, the broader basket of growth companies deserved to take a hit. But given how difficult they are to value (on the way up and down), it’s tough to draw a line in the sand. For many growth stocks that lost 50%, 70%, or even more than 80% of their value, it’s quite possible that the line in the sand (a stock’s true worth) may lie multitudes higher. It’s hard to tell, but for those with a long-term time horizon and capital to risk in extremely choppy names, there are worse ideas than playing the role of contrarian right now in the battered tech scene.

Undoubtedly, large-cap tech is better positioned to weather the storm. With deeper pockets and considerable sums of cash to blow on projects that may not become profitable years into the future, it’s the tech titans that have acted as pillars of stability for the broader tech sector.

Shopify stock: A generational growth play

Still, there are large-cap tech innovators that have fallen hard from grace. **Shopify** (TSX:SHOP)(NYSE:SHOP) is one such firm. It used to be the largest company in Canada when the stock peaked last year.

Fast forward to today, and the e-commerce giant has surrendered a big chunk of the gains and the title of the largest company in Canada. Though Shopify still has a lot to prove, as it looks to capture the e-commerce market, the risks are also creeper higher, as recession looms. Mild recession or not, consumers may go into hibernation, as their pandemic-era cash cushions shrink.

Though the perfect storm of headwinds seems to be ahead for Shopify, I'd argue that the firm is making the most of the tough times ahead, with investments and acquisitions amid the tech wreck.

With around $7 billion in cash and cash equivalents as of the end of the last quarter, Shopify has more than enough to make deals happen. With so many startups in a world of pain, partial investments (like Shopify's $100 million bet on text-marketing startup Klaviyo) could pay major dividends down the road, as Shopify looks to stay on the cutting edge of innovation.

Shopify is a rather confusing play, but I think investors are undervaluing it at below $500 per share.

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