Down 77%, Why Shopify Stock Is a Screaming Buy in September 2022

Description

Shares of **Shopify** (TSX:SHOP)(NYSE:SHOP) continue to be the worst-performing **TSX Composite** components this year. After rising by nearly 11% in July to $44.61 per share, SHOP stock has resumed its downward trend in the last couple of months, erasing all its gains from July. As a result, Shopify stock currently trades with massive 77.3% year-to-date losses against a 9.2% drop in the TSX Composite benchmark.

In this article, I'll highlight why this Canadian tech stock still has the potential to yield outstanding returns in the long run if you buy it right now. Let's begin.

Key reasons for Shopify's terrible stock performance in 2022

Prior to 2022, Shopify stock was known for delivering solid returns to its investors each year since its listing on the exchange in May 2015. In five years between 2017 and 2021, SHOP stock impressed investors by yielding an eye-popping 2,919% positive return.

During the COVID-19 pandemic phase, the sales for Shopify's easy-to-use e-commerce services saw a sudden spike amid restrictions on physical activity. As a result, the company registered an impressive 85.6% YoY (year-over-year) jump in its 2020 revenue figures to US$2.9 billion. Even at that time, it was clear that this sudden increase in demand would not last forever — especially after the pandemic was over. This is exactly what started happening the next year. In 2021, the Canadian e-commerce giant reported a 57.4% YoY increase in its revenue to US$4.6 billion, as the pandemic-related restrictions started easing.

Now, Shopify expects its YoY sales growth rate to moderate further in 2022, as the pandemic-driven surge in demand continues to subside. While bears blame its slowing sales growth rate for SHOP stock's big year-to-date losses, the recent tech meltdown amid macroeconomic uncertainties, including high inflation and rising interest rates, is also responsible for driving SHOP stock downward this year.

Why SHOP stock is a screaming buy right now

While the performance of a company's stock usually reflects its underlying financial growth trends and fundamental outlook, it's not always the case. SHOP stock's recent performance reminds me of a great statement made by English economist John Maynard Keynes many decades ago. Keynes once said, "the markets can remain irrational longer than you can remain solvent."

It's important to note that the pandemic-related surge in demand for e-commerce products drove Shopify's sales to a level that might have taken many years to reach. To give you an idea, its revenue jumped by 585% between 2017 in 2021 from just US$673 million to US$4.6 billion. As growth companies primarily focus on sales growth and business expansion, this top-line growth trend looks really impressive. While its sales growth in the ongoing year might not look amazing when we compare it to the previous year, I find its ability to still grow its sales positively over 2021 figures worth noting.

It's nearly impossible for anyone to predict whether a stock has bottomed. That's why if you don't want to miss the opportunity to buy an amazing growth stock at a big bargain, you may consider buying SHOP stock to hold for the long term when it looks really undervalued with its 77% year-to-date losses.

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