Shopify Stock: A Screaming Buy After Tuesday’s Inflation Report

Description

The recent U.S. inflation number has many Canadian investors turning against the same growth stocks they couldn’t get enough of in the back half of 2021. Undoubtedly, the vicious growth sell-off we witnessed in the first half of this year may not yet be over. There’s a good chance the selling could drag into 2023 — a potential recession year. In any case, investors must stay the course and try to be contrarian where possible.

In the growth space, it’s really hard to go against the grain these days. If you’re looking at a stock that’s not yet profitable with a hefty price-to-earnings (P/E) multiple, odds are that it’s considerably more volatile than the **TSX** Index.

Shares of **Shopify** (TSX:SHOP)(NYSE:SHOP) plunged more than 5% on Tuesday, as consumer price index data came in worse than expected. Investors now expect the Federal Reserve to follow through with a 75bps (maybe even a 100bps) hike up ahead, with another 25bps hike to close off the year.

Shopify may be at the mercy of inflation and rates right now. But eventually, the company will have to tackle an economic downturn that could see digital sales begin to slow. It’s tough to be a growth investor these days. But unless you’re expecting a swift return to new highs, I’d argue that the risk/reward is actually decent right now for the many growth darlings that Mr. Market can’t seem to mark down enough!

Shopify is a dominant growth company that will see better days again. Though shares look to have bottomed out in the $40 per-share range, it’s quite possible that the stock will fall even lower if inflation doesn’t back down by enough to cause the Fed to pivot.

Shopify continues to sustain its edge

Shopify is doing what any smart, strategic business does when the going gets tough. It's continuing to invest in its business to get ready for the next boom. Shopify reduced its workforce, with more than 1,000 layoffs. The company is incentivized to improve operational efficiencies and drive profitability. When investors crave profits, sometimes you have to try your best to give it to them.

What makes Shopify an intriguing company is that it can lean out while keeping its long-term growth engine going strong. Shopify's M&A activity has been notable, and its move to block the **Amazon** "Buy with Prime" service could help bolster its own Shop Pay service, to maintain a competitive edge.

Undoubtedly, blocking "Buy with Prime" could have repercussions. The Amazon one-click checkout service offers a wide range of benefits, including rapid fulfillment for Prime users. Shopify is taking aim at Amazon, going as far as warning merchants that Amazon's service could collect data from customers.

Indeed, the privacy angle may motivate Shopify merchants to stick with Shop Pay. However, there's also a chance that certain merchants could ditch Shopify so they can use Amazon's one-click service.

The bottom line

Just because others are leery of growth and tech doesn't mean you should be. While I wouldn't go all out on fast-falling plays like Shopify, I would begin to average down.

Eventually, the tides will turn. And you'll want to be invested before they do. Shopify stock trades at 5.0 times price-to-book (P/B), well below the industry average of 6.1. The environment is bleak, but the company still has fight left in it. For that reason, I'd not throw in the towel, even if it takes another year before the stock can bottom out and rally higher again.

CATEGORY

1. Investing
2. Stocks for Beginners
3. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. 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. agraff
2. joefrenette
3. tmftysat

Category

1. Investing
2. Stocks for Beginners
3. Tech Stocks

Date
2025/07/20
Date Created
2022/09/14
Author
joefrenette