Bear Market Selloff: Is Shopify Stock a Buy Right Now?

Description

Shopify (TSX:SHOP)(NYSE:SHOP) is among the worst-performing stocks on the TSX in 2022. The e-commerce giant was Canada's largest company in terms of market cap last year. It has since lost 80% from all-time highs, valuing it at $55.9 billion by market cap.

In addition to the steep valuation of Shopify stock, investors were worried about its decelerating revenue growth and a challenging macroeconomic backdrop. Despite the recent pullback, SHOP stock has returned a market-beating 1,320% to investors since it went public in May 2015.

Let's see if the selloff in 2022 makes Shopify a good stock to buy at a depressed valuation.

The bull case for Shopify stock

Shopify thrived amid the pandemic and increased its sales by 86% year over year in 2020. As lockdowns were imposed, small and medium businesses (SMBs) flocked to Shopify to establish an online presence.

Shopify's platform also enables merchants to manage sales across online and offline channels. Additionally, it provides ancillary services such as financing, payment processing, digital marketing, and discounted shipping. So, Shopify's widening ecosystem makes it a one-stop shop for SMBs in North America.

Shopify is now the second most popular e-commerce platform in the U.S. behind **Amazon**. A report from G2 Grid stated that Shopify powered 10.3% of e-commerce sales in the U.S. in 2021.

The Canadian tech heavyweight is well poised to grow its revenue in the upcoming decade, given the shift toward e-commerce will continue to gain traction globally in 2022 and beyond.

Shopify is also expanding its suite of services with the introduction of the Shopify Fulfillment Network (SFN). The SFN will provide storage, packaging, and shipping services to its merchant base.

While sales growth has narrowed considerably in 2022, Shopify reported sales of US$2.5 billion in the first two quarters, an increase of 19% year over year. Comparatively, its revenue rose by 57% in 2021.

Due to its investments in SFN and rising operating costs (up 72%), the company's adjusted loss stood at US$13 million compared to a profit of US$539 million. However, SFN should allow Shopify to derive incremental sales from its merchant solutions segment, driving the top line higher in the future.

The bear case for Shopify

There are a few headwinds that can hurt SHOP's stock price in the near term. First, the prospect of an upcoming recession might lower consumer spending globally in the next 12 months.

Analysts expect Shopify to report revenue of $5.84 billion in 2022 and $7.8 billion in 2023. Both these forecasts can easily move lower if an economic downturn is a reality.

Further, despite its gargantuan collapse year to date, Shopify's stock price is trading at a premium. It's valued at seven times 2023 sales, which is quite steep for a company yet to post consistent profits.

On the flip side, Shopify was trading at 50 times forward sales last year. The current ratio is the lowest valuation for the Canadian e-commerce firm in the last six years.

The Foolish takeaway

Shopify's growing ecosystem holds the company in good stead and should allow the stock to stage a comeback within the next year. Analysts remain bullish on SHOP stock and have a 12-month average price target of US$77, indicating an upside potential of almost 140%.

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