



Down 84%, Will Shopify Stock Bounce Back?

Description

Shopify ([TSX:SHOP](#)) has eroded its shareholders' wealth in 2022. Its stock slumped 84% from its 52-week high of \$222.87, reversing its pandemic-led gains. Despite the massive erosion in its value, I see Shopify as a long-term winner and expect the internet commerce platform provider to recover swiftly as the economic environment improves.

But before looking at the catalysts, let's see why Shopify stock massively underperformed most [large-cap TSX stocks](#) this year.

Here's what dragged Shopify stock down

Thanks to the accelerated demand, Shopify stock surged amid the pandemic. Further, strong government stimulus during the pandemic kept the demand high. However, the absence of government stimulus in 2022, tough comparisons, and normalization in e-commerce spending trends, as people are shopping in stores again, weighed on its performance and stock.

Further, macro challenges, including high inflation and rising interest rates, turned investors risk-averse and led them to dump [technology stocks](#) with high valuations and uncertain profit trends.

Shopify's growth to accelerate

While macro headwinds could continue to pose challenges in the short term, Shopify is well positioned in the e-commerce space as an enabler of multichannel commerce to capitalize on the structural shift in selling models.

It's worth mentioning that Shopify's growth is expected to accelerate in coming quarters as year-over-year comparisons will ease. Meanwhile, benefits from its commercial initiatives and aggressive investments provide a multi-year growth opportunity.

Shopify has invested heavily in sales and marketing to expand its addressable market and increase its

penetration in the existing markets. Moreover, it is expanding its products in new markets, adding more merchant solutions, and partnering with leading social media platforms that will continue to drive its merchant base, expand its addressable market, and increase its penetration in existing markets. This will support its merchant solutions and subscription revenue in the coming quarters.

It's worth highlighting that Shopify processed \$24.9 billion of GMV (gross merchandise volume) on Shopify Payments in the second quarter (Q2), up 23% year over year. Further, its gross payment volume accounted for 53% of the GMV processed in Q2 of 2022 compared to 48% in the prior year. This represents higher adoption of its payment offerings and provides a solid growth platform.

Shopify will likely benefit from the increased demand for its offline retail point-of-sale (POS) offerings as merchants modernize their POS systems as people are shopping in stores again. Its offline GMV surged 47% in Q2, and Shopify continues to gain market share, which is an encouraging sign.

Besides the POS opportunity, Shopify's investments in fulfillment and the recent acquisition of Deliverr will support its growth.

Valuation at multi-year low

The significant correction in Shopify stock has driven its valuation to a multi-year low. At current levels, Shopify stock is trading at a next 12-month enterprise value-to-sales multiple of 4.6, which is at a six-year low and represents a massive discount from its pre-COVID levels of 12.5.

Bottom line

Shopify is facing headwinds that could restrict the upside in its stock in the near term. However, its multiple growth catalysts, secular tailwinds from ongoing digital transformation, and its investments in omnichannel platform provide a solid foundation for long-term growth. Further, its low valuation presents an excellent investment opportunity.

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