Why I Own Shopify Stock

Description

Holding onto **Shopify** (TSX:SHOP)(NYSE:SHOP) stock during its severe price decline in 2022 has been a mentally and emotionally trying experience for long-term growth-oriented investors. Shares declined as much as 80% at some point this year, prompting early investors to re-evaluate why they own Shopify stock, and if they should bail out.

I initiated a position in the stumbling e-commerce stock as shares temporarily sold cheaper this year. Shopify stock is a long-term growth investment position in my retirement portfolio. The plan is to hold shares, probably for the next 20 years, if the company continues to exhibit desirable moats and attractive features in line with the original buy thesis.

Strategically, the portfolio will remain overweight with growth stocks for the next 15 to 20 years. Then, I'll gradually transition to lower risk, low volatility positions that offer recurring income and steady growth potential for five years or so before a planned retirement probably by 2050.

Perhaps SHOP will continue to belong to my stock portfolio the entire time so that I can gift it to my heirs. However, this is premised on the company retaining the qualities for which I bought its shares in 2022.

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I bought Shopify stock for its growth potential, and the company hasn't disappointed yet over the last two quarterly earnings installments.

Shopify remains a growth stock despite inflation headwinds and the normalization of e-commerce business growth rates in 2022. The company has continued to post double-digit revenue growth rates this year regardless of tough conditions following record revenues and earnings in 2021.

Shopify's third quarter revenue grew 22% year-over-year to US$1.4 billion. The latest results follow a 16% growth in the top line during the second quarter.

Wall Street analysts expect Shopify to grow revenue by nearly 19% year-over-year in 2022 before sales growth accelerates to 23% year-over-year in 2023. The company is still in high growth mode, providing investors with confidence to buy the dips on SHOP stock this year.

Companies that report sustained double-digit growth rates during tough economic times should have valuable and investable moats. Record inflation numbers and rising interest rates threaten consumer spending, but Shopify is hanging on to its growth trajectory. Business volumes could grow even faster when the global economy stabilizes, and as the tech company continues to innovate and launch new services.

Growing sales provide the company with breathing room to engineer sustainable operating profitability and generate positive cash flows over the long run. Long-term investors can expect Shopify to return to profitability over the next few years as it rationalizes its cost base, expands into offline commerce, and penetrates more geographical markets.

Potential problems to watch out for with Shopify

Shopify continues to grow in 2022, but its margins are shrinking. Gross profits are increasing at a slower pace than revenue. Although accretive to revenue growth, the recent acquisition of fulfillment software developer Deliverr adds lower-margin sales to the mix. Lower gross margins delay progress toward operating profitability and free cash flow generation.

Most noteworthy, the company could continue to generate negative operating cash flows over the next two or more years as it fine-tunes its fulfillment network. However, Shopify's cash, cash equivalents, and marketable securities balance have declined to only US$4.9 billion.

Shopify's operations gobbled nearly US$400 million during the third quarter alone, and the company is still investing in its growth projects. Liquidity has declined, and the company may need new financing if cash flows don't improve over the next two years. Dilution could be around the corner.

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