This Familiar Tech Stock Is Down 80%, But Is it a Buy Now?

Description

2022 has not been kind to tech stocks. The NASDAQ-100 (the index that includes most of the world's biggest tech companies) is down about 30% for the year, and some think it has further still to fall. To help fight the COVID-19 pandemic, central banks around the world have raised interest rates, which made it easy for tech companies to grow. Afterward, though, things got a little more complicated.

Starting in March of this year, the Federal Reserve started raising interest rates, which made it more expensive for companies to raise money and made growth less valuable. As a result, tech stocks crashed at a pace not seen since 2008.

In this article, I will explore one TSX stock that has fallen even further than average and ask whether it has the potential to rise from here.

Shopify

Shopify (TSX:SHOP) is a Canadian technology stock that's down almost exactly 80% from its all-time high. It hit a peak of $169.06 in November of last year. As of this writing, it was at 34.12 — that's a 79.8% decline.

Shopify was, prior to its selloff, one of the most talked-about tech stocks in the world. It's an e-commerce company that was growing its sales at 80% in 2020, the peak year of the COVID-19 pandemic. When many businesses were closing down, Shopify was having its best year ever! However, things didn't continue on that rosy path for long.

Why it's down so much

Shopify stock started falling precipitously this year because of two negative developments:

1. Central bank interest rate hiking.
2. A string of disappointing earnings releases.

Central bank interest rate hikes took a bite out of all tech stocks. When interest rates go up, high growth stocks like tech stocks go down. In a discounted cash flow model — a type of model used to value stocks — high growth becomes less valuable as interest rates go up. So, when interest rates rise, growth stocks like Shopify fall.

On top of that, Shopify delivered some pretty disappointing earnings releases. In the second quarter, revenue grew at just 16% when investors were used to 90% growth. It also lost money on top of that. It was a tough pill for investors to swallow, and many of them sold SHOP stock in response.

Sign of a recovery?

As mentioned previously, Shopify stock took a massive beating this year. However, we may be seeing signs of a recovery. On the day this article was written, Shopify rallied 17.5% in just a few hours, after it put out an earnings release that was well ahead of expectations. In the release, Shopify delivered 22% revenue growth and lost only $0.012 per share, when a much bigger loss was expected. It was great news from Canada's biggest tech company, and investors celebrated it.

Foolish takeaway

It's clear that Shopify has struggled this year, but we may be seeing early signs of a recovery. Already, the company is ramping up its growth, and it may be about to turn the corner on profitability. For me personally, this is still a risky bet, but very growth-oriented investors may want to look into taking a small position.

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Date
2025/07/21
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