Should You Buy Shopify Stock If the Rate Hike Cycle Slows?

Description

Canadian e-commerce giant **Shopify** (TSX:SHOP) was an amazing growth story till last year. But not anymore! It has lost 72% of its market value this year and is one of the biggest wealth destructors of 2022. However, the recent inflation data did bring some respite, driving a modest 40% recovery since last month. But the stock is still way down from its all-time highs. So, should you buy SHOP at current levels?

Bull case

If inflation cools down and interest rate hikes slow, that could cheer tech investors. Rapidly rising rates have already done enough damage, and we might have seen growth stocks bottom recently. So, the central bank's policy shift will likely please growth investors.

Moreover, Shopify saw decent 22% revenue growth year over year in Q3 2022. It also reported narrower-than-expected losses for the quarter. And as it is investing in growth projects like the Fulfillment network, the financials could take a hit in the short term to brighten the long term. Shopify's Fulfilment network could be a key growth driver, especially after its acquisition of Deliverr.

Shopify was a saviour when it helped merchants set up an online store during the pandemic. However, growth waned amid normalcy as customers went back to brick-and-mortar stores. Interestingly, Shopify is now catering to offline merchants, making itself an "all-in-one" solution for commerce. Its new point-of-sales Pro software enabled for Android devices saw solid traction in the recently reported quarter.

Shopify caters to an enormous addressable market, including both online and offline merchants, and operates in over 150 countries. As e-commerce will likely continue to grow, its gross merchandise volume and financial growth could follow.

Bear case

Although Shopify saw decent topline growth recently, it is much lower than the historical average of close to 60%. Its margins also took a notable hit this year amid higher costs.

Even if the rate hike slows next year, inflationary pressures will likely remain, negatively impacting its bottom line. In the last 12 months, Shopify has reported total losses of US$3.2 billion against a net profit of US$3.4 billion in the earlier period.

After such a steep value erosion, SHOP stock is currently trading at eight times its sales. That's a deep discount, making it vulnerable to upcoming interest rate hikes.

Shopify is aggressively investing in its crucial Fulfillment network project. So, we might continue to see cash burn for the next few quarters. Moreover, how the project turns out and whether it will really be a growth driver remains to be seen.

Conclusion

Shopify stands at a crucial juncture where it seems to be beginning a new growth chapter. The stock could continue to trade within a range, given the supply chain issues and ensuing inflation pressures. The digital commerce solutions provider does not seem ready to catch a full-fledged recovery just yet due to the absence of any significant growth drivers.

The risk-reward proposition appears out of favour, given its slackening financial growth. Though investors would be prudent to check again on SHOP after a couple of quarters, in expectation of more certainty over its profitability and easing inflation woes.

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