Tech Selloff: 1 TSX Stock Down 76% to Buy Before it Roars Back

Description

The ongoing bear market has been the defining characteristic for equity investors in 2022. It has been the worst downturn for Bay Street in more than a decade, with growth stocks trading significantly below all-time highs.

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The tech-heavy Nasdaq Composite index is currently trading 31% below record highs, while tech stocks on the TSX, such as **Shopify** (TSX:SHOP), have declined by more than 75%. But there is a hint of a silver lining amid all the chaos. For instance, investors can now buy quality companies at cheaper multiples that might rebound once market sentiment improves.

So, disciplined investors have the opportunity to generate exponential wealth in the current bear market. With these factors in mind, let's see if Shopify is the perfect contrarian bet for investors right now.

Shopify is part of the e-commerce market

While the COVID-19 pandemic initially acted as a massive tailwind for Shopify and other e-commerce peers, the reopening of economies triggered a deceleration in online shopping this year. In addition, rising interest rates and inflation have weighed heavily on consumer demand in 2022, again impacting the top line of Shopify.

Shopify's sales rose by 20% year over year in the first nine months of 2022. Comparatively, revenue growth stood at 86% in 2020. Despite the deceleration in 2022, Shopify has expanded its sales at an annual rate of 52% in the past three years.

Due to its lofty valuation and a volatile stock market, Shopify shares experienced a massive selloff in the last 12 months.

However, over the long term, the global e-commerce market is forecast to touch US$5.4 trillion in 2026, accounting for 27% of total retail sales, up from US$3.3 trillion in 2022, according to a report from **Morgan Stanley**. Comparatively, Shopify sales are estimated to rise from US$5.5 billion in 2022 to US$8.3 billion in 2024, as per consensus estimates.

Shopify is already one of the largest players in the e-commerce segment, accounting for 10% of the gross merchandise volume in the United States, second only to **Amazon**. Additionally, around a third of e-commerce sites south of the border is powered by Shopify, indicating it enjoys a wide economic moat.

What's next for SHOP stock price and investors?

Shopify's high operating leverage allowed it to report adjusted profits in the last two years. But it swung to a loss in 2022 due to foreign exchange headwinds and rising operating expenses.

Shopify has invested heavily in developing a vast network of fulfillment centres, which should drive future cash flows higher. But its earnings before interest, tax, depreciation, and amortization might fall to -US$61.75 million this year before improving to US$358 million in 2024.

Similar to several other tech stocks, Shopify is looking to lower its cash-burn rates and reduced its headcount by 10% in recent months.

SHOP stock is currently priced at 7.2 times forward sales, which might seem quite steep, given it's struggling to deliver consistent profits. There is a good chance for SHOP stock price to fall lower, especially if macro conditions worsen in the near term.

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But Shopify's market-leading position, rapidly expanding addressable market, and steep pullback make it a top TSX tech stock to buy right now.

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