Is it Time to Buy e-Commerce Stocks?

Description

E-commerce stocks are massively out of favour this year. Pick any e-commerce name you like, **Amazon** (NASDAQ:AMZN), **Shopify** (TSX:SHOP)(NYSE:SHOP), **Alibaba** (NYSE:BABA), or any other, they're all hurting.

In a few cases, the sell-offs were justified. Shopify was unbelievably expensive at the start of the year, trading at over 50 times sales, while Amazon's core retail business lost money last quarter. But as Alibaba's most recent earnings release showed, it's still possible for e-commerce companies to generate large amounts of cash flow. In this article, I will explore the possibility of e-commerce stocks rebounding next year. Ultimately, some of them are bound to do so.

Why e-Commerce stocks could be set for a turnaround

One reason why e-commerce stocks could be set for a turnaround is because they're so out of favour now. People got really antsy about the fact that Amazon and Shopify weren't super profitable in their most recent quarters. Amazon's retail business lost money last quarter, while Shopify's entire business lost money. However, you need to remember that companies' earnings sometimes include things that aren't expected to recur indefinitely. Amazon spent a lot of money on fulfillment centres last quarter, while Shopify owned a stock portfolio that performed poorly. Eventually, Amazon will absorb the costs of building its fulfillment centre, and Shopify's stock portfolio might turn around. When/if these developments materialize, then Amazon retail and Shopify will start posting positive earnings again.

Some good picks to consider

If you're looking for good e-commerce plays to buy right now, you have a lot of options. Shopify stock is still pretty expensive but it has decent growth – growth actually sped up last quarter. Amazon is a capital-intensive business, meaning it spends a lot of money, but that can pay off over the long run.

The main e-commerce stock I'm holding at the moment is Alibaba. It's a Chinese e-commerce stock that is truly dirt cheap. At today's prices, it trades at just 12.2 times adjusted earnings, 2 times sales, and 11 times operating cash flow. By the standards of big tech stocks, this is about as cheap as it gets. Alibaba trades at a much cheaper valuation than Amazon does, yet its profits are more consistent and it has high cash flows.

Be aware, though, that Alibaba is subject to political risk. The company is based in China, a country whose relations with the U.S. and Canada are icy, and it is sometimes caught up in political scandals. In 2021, it was forced to pay a $2.8 billion fine when it ran afoul of China's anti-trust (i.e., anti-monopoly) laws. Keep these risks in mind before you invest in Alibaba because people tend to get worried about these quagmires and that leads to stock price volatility.

Foolish takeaway

Is e-commerce set to come back to life in 2023? It's hard to say overall. Most likely, some e-commerce companies will do well, and others will do poorly. If you invest in e-commerce companies that are consistently profitable and not too expensive, you'll probably do well.

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3. NYSE:SHOP (Shopify Inc.)
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