2 E-Commerce Stocks I'd Buy Right Now (and 1 I'd Cautiously Consider)

Description

E-commerce stocks are out of favour in 2022. Pretty much every big company in the industry is down big this year, and it's not hard to see why. In 2020, COVID-19 lockdowns forced retail stores to shut down, leading to a surge in sales at e-commerce companies. In 2022, the lockdowns pretty much ended, with the result being that e-commerce companies faced more competition from retailers. Predictably, their sales growth slowed down.

So, 2022 was a bad year for e-commerce. That's just a fact. But it's also a reason why e-commerce may be set for better fortunes in the future. Companies go through their ups and downs — often, buying them at their low points results in superior returns. It's unlikely that a growing industry like e-commerce is going to collapse; the problem this year was mere deceleration (i.e., a growth slowdown); these companies did not actually shrink. So, many of them could be compelling buys at today's prices.

In this article I will look at two e-commerce companies I'd buy in 2022 — and one I'd cautiously consider.

Buy: Alibaba

Alibaba (NYSE:BABA) is one e-commerce stock I would buy and have, in fact, bought. It's a Chinese e-commerce company that got beaten down in 2021 due to China's regulatory crackdown and again in 2022 because of China's COVID outbreaks. From the all-time high set in 2020, BABA stock has fallen about 70%.

It's been a tough selloff, but it creates a major opportunity today. At $86.50, Alibaba stock is extremely cheap, trading at

- 11.5 times adjusted earnings;
- 1.89 times sales;
- 1.7 times book value; and
- 10.5 times operating cash flow ("operating cash flow" is a cash-only metric that people sometimes use in place of earnings).

By the standards of big tech, these ratios are all very low. Yet Alibaba's business is growing, with 19% growth in earnings and 61% growth in free cash flow in the most recent quarter.

Buy: Amazon

Amazon (NASDAQ:AMZN) is another e-commerce stock that got badly beaten down in the last year. It started off the year at $170 and fell to $85 — a 50% decline.

Amazon had a great year in 2020. That year, the COVID-19 pandemic resulted in massive retail closures, which caused people to shop at Amazon and other online stores. Predictably, such stores' sales spiked. However, when the pandemic ended, Amazon's growth slowed down. In the most recent quarter, the Amazon retail business lost money — Amazon as a whole only earned a profit because of Amazon web services.

It might look like times are tough for Amazon, but these things tend to ebb and flow with time. In 2001, Amazon went through a much worse crash than the one it's undergoing today, and it went on to rally 40,000% over a few decades. To me, this looks like a buyable dip — not the end of the world.

Cautiously consider: Shopify

Shopify (TSX:SHOP) is an e-commerce stock I'd cautiously consider buying. Much like Amazon and Alibaba, its shares are down for the year, but its issues are a little more serious than those companies' are.

In 2020, SHOP benefitted from COVID-19 retail closures, just like Amazon did. It grew 86% that year. That sounds great, but investors bid the stock up dramatically because of all the growth it was doing. It got very expensive, at one point trading at 60 times sales! This year, Shopify's growth slowed down to around 20%, so it's no longer priced like a stock that's growing like wildfire. Also, it's once again losing money, after briefly becoming profitable in 2020 and early 2021.

Times have gotten tougher for Shopify, but there's a possibility that the company will turn it around.

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