



Shopify Stock: Incredible Bargain or Value Trap?

Description

Shares of **Shopify** ([TSX:SHOP](#)) dropped further than most investors would have imagined last year. Indeed, the e-commerce tech darling rose to the top of the TSX Index, only to come quickly crashing down at the hands of interest rate hikes and a looming central bank-mandated recession.

Undoubtedly, many Canadian investors got too excited with the name when it soared for most of 2021. The high-growth company was a rare breed on the TSX. And with that likely came a scarcity premium. Although I still believe in the firm's ability to grow through the decade under the leadership of its founder Tobias Lütke, the name has become quite difficult to value.

There's a new line in the sand, with Shopify stock forming a bottom in the \$40 per share range. Still, given the headwinds on the horizon and recent acquisitions (think Deliverr), Shopify has become a more complex story to evaluate. Unquestionably, e-commerce can be a tough industry to compete in. That said, it's hard to find e-commerce pure plays that have done as good a job as Shopify in fending off the original disruptor **Amazon** ([NASDAQ:AMZN](#)).

Like it or not, Shopify's still in growth mode

Looking ahead, Amazon could begin to pay more attention to the small- and medium-sized businesses (SMBs) that prefer having their digital storefronts apart from the Amazon ecosystem. The "Buy with Prime" button is incredibly intriguing and convenient for SMB merchants and shoppers. With such a button, merchants could be handing over payment and fulfillment services to Amazon.

Indeed, such a service could hugely impact Shopify's growth.

Shopify has its own "Shopify Payments," and with Deliverr thrown into the mix, the firm has its fulfillment service. Going forward, it will be fascinating to see how Shopify fares as it looks to compete over the next 10 years. Arguably, the next 10 years could be bumpier than the past 10 years.

The main question is whether Shopify merchants will embrace the Shopify ecosystem, or jump ship to another merchant so they're able to use Amazon's "Buy with Prime" service. I think most Shopify

merchants will stay within Shopify's ecosystem for parallel products and services.

Undoubtedly, Amazon offers an incredible value proposition to merchants at the expense of its profitability. Shopify can match it, but it may have to endure a larger hit to its margins, given it's more of an e-commerce pure play than Amazon, which makes considerable sums from its web services business.

With rates rising, investors don't like the fact that a firm like Shopify will need to spend more to fuel growth. However, I believe the stock's 2022 reaction is overdone. Further, the excessive decline could lead to a larger rally down the road if central banks decide to trim rates. Even talks of such trims could propel high-quality hyper-growth stocks like Shopify back into the spotlight.

Shopify stock looks like a bargain to me

Even with Shopify stock's more than 80% peak-to-trough fall, the name is still up north of 1,300% since SHOP stock landed in the Spring of 2015. Still a massive gain for the earlier Shopify shareholders.

The stock simply surged too fast and by too much, setting the stage for a [bearish](#) nosedive. The stock's right back to where it was in the late summer of 2019. It merely surrendered the euphoric gains posted between 2020 and 2021. With the name now corrected, I think Shopify is a magnificent buy for any young Canadian [investor](#), even if the road ahead is a tad bumpy.

Looking ahead, I view Shopify stock as a bargain, not a trap. That said, risks exist as the firm looks to grow in a more challenging world. At 8.8 times price-to-sales, Shopify seems way too cheap, given the type of growth it's still capable of and the potential for rates to wind down in coming years.

Shopify stock won't be everybody's cup of tea. It's going to remain incredibly volatile and the story will continue to evolve, as Lütke and company look to grow as a leaner company. Personally, I'm a fan of the new Shopify and its valuation. Do mind the high 1.9 beta (almost twice as volatile as the TSX) and be sure you're prepared for a wild ride.

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Author

joefrenette

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