



Is Shopify Stock a Buy Before Its Q4 2022 Earnings?

Description

The year 2023 could finally bring respite to growth investors. Tech stocks seem to be in great shape amid easing macroeconomic woes. While the **TSX Composite Index** has soared 7%, tech names at large have gained a decent 20% so far in 2023. Notably, the biggest of them, **Shopify** ([TSX:SHOP](#)) stock, has soared a handsome 50% in the same period, beating its peers.

What's next for growth stocks?

Only time will tell whether Shopify can regain its lost glory. However, the changing macroeconomic scenario will likely drive [TSX tech stocks](#) higher this year.

Record-high inflation forced central bankers to raise benchmark interest rates last year. While higher rates prevent the economy from overheating, the same move makes growth companies' future cash flows less valuable. As a result, we saw substantial value erosion in growth stocks last year. However, if the interest rate hike cycle pauses this year, it will most likely be a big boost for growth stocks and investors.

What to expect from Shopify in Q4 2022 earnings?

Shopify is set to release its fourth quarter and full-year 2022 earnings on February 15, 2023. While its revenues might trend higher, the bottom line could continue to remain under pressure.

According to analysts' estimates compiled by Yahoo Finance, Shopify is expected to report revenues of \$2.2 billion for Q4 2022. This represents nearly a 20% increase year over year.

In Q4 2021, Shopify reported earnings of \$0.18 per share. Its margins were notably lower for the nine months that ended September 2022, thanks to the adamant inflation. The trend will likely continue for the next few quarters.

Growth prospects

The pandemic was a key growth driver for Shopify. As customers again turned to offline shopping as movement restrictions waned, Shopify saw a quick tumble in its financials.

Going forward, Shopify Fulfillment Network could be a big growth driver. It aims to offer merchants an integrated platform for all their logistics needs, right from receiving inventory to distribution to customers. Shopify aims to invest US\$1 billion in this project between 2022 and 2024.

A major chunk of that capital expenditure will be deployed in 2023. So, its cash flows could remain strained in the short to medium term, and investors might see positive free cash flows from 2025.

In the last 12 months, Shopify reported free cash flows of US\$200 million compared to US\$453 million in 2021.

Shopify saw a major value erosion last year, as it was quite richly valued at the end of 2021. However, SHOP stock at lower levels makes it an attractive bet for the longer term. That's because the e-commerce enabler has seen quite an encouraging uptick in its key performance indicators in the last few quarters.

The e-commerce platform's gross merchandise volume for the nine months ended September 2022 came in at US\$136 billion, implying a decent 12% increase year over year. Gross merchandise volume indicates the dollar value of transactions completed on the Shopify platform. Its monthly recurring revenue also increased by 8% for the same period. The expanding market share and above-average expected financial growth prospects make SHOP [an appealing bet](#).

Bottom line

Given the easing policy tightening later this year, SHOP stock seems to have just begun the climb. Its financials could remain under pressure for some more quarters due to its aggressive capex plan. However, the stock will continue to trade volatile and, thus, seems an apt bet for those with a higher risk appetite.

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