



## Is Shopify Stock a Good Buy After its Recent Rally?

### Description

**Shopify** ([TSX:SHOP](#)) stock soared last week, rising 12% from Monday's close to Friday's close. The stock's second-biggest rally in months, it got people talking.

Shopify struggled last year, thanks to extensive central bank interest rate hiking and a series of poor earnings releases. The company, which grew its revenue at 86% year over year in 2020, grew at only 22% last quarter. 22% might sound like a lot of growth, but you need to remember that this stock was priced assuming a very long period of growth in excess of 50%. At one point, the stock traded at 60 times sales. 22% growth is good in absolute terms, but it does not justify such a valuation.

Having said that, Shopify is a lot cheaper now than it once was. At today's prices, it trades at "only" 12 times sales, which is honestly still very high, but perhaps not crazy if you assume that SHOP's 22% growth can be continued indefinitely. It remains to be seen whether that actually can happen, but last month, investors took in new information that pointed to it being possible.

In this article, I will explore the reasons why Shopify rallied 12% last week when the broader markets rose much less.

### Price hikes

The biggest news about Shopify last month, was the report that the company was going to be hiking its prices. The company announced that it would hike prices by \$1 on its basic plan, and by \$10 each on the Shopify and Advanced plans. The price hikes ranged between 1% and 9.5% — big enough to make an impact on Shopify's bottom line.

In recent quarters, Shopify has been losing money. For example, in the third quarter, it [lost \\$158 million](#). A big part of these losses is the fact that SHOP owns a stock portfolio that has been declining in value; however, operating earnings have been negative, too, so that's not the whole picture. With a little revenue boost from hiking prices, Shopify could perhaps inch closer to profitability and restore investor confidence.

## Earnings up soon

A second factor that may have influenced Shopify's price momentum last week is the fact that the company's next earnings release is coming out soon. On February 15, Shopify will release its earnings for the fourth quarter, which will tell investors whether the company has managed to maintain growth at 22% and return to profitability. It will be a closely watched release, and investors may be optimistic. So far this year, 69% of S&P 500 companies that have reported earnings have beaten expectations. Perhaps investors are expecting SHOP to do the same thing many of its [big tech peers](#) have done. If so, it only makes sense that they would bid the stock up.

## Foolish takeaway

Shopify's rally last week was pretty extreme. Going up 12% in just five trading days, it was momentum more reminiscent of 2021 than 2022. Investors may not be out of the woods yet, but if SHOP's upcoming release is good, then the rally may continue.

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