2 E-Commerce Stocks That Could Boost Your Wealth in 2023

Description

Are you interested in e-commerce stocks?

If so, you may be making a wise choice. E-commerce is out of favour this year, with several major e-commerce companies having lost even more market cap than other tech stocks did last year. In 2022, tech stocks massively underperformed, and e-commerce names were among the worst of the bunch.

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Historically speaking, out-of-favour stocks have tended to provide the best returns in the future, as lower prices typically result in higher earnings per dollar invested. There are some cases when stocks simply go low because they have suffered permanent damage, but temporary unpopularity is the more common cause for big selloffs. In this article, I will explore two e-commerce stocks, whose "damage" appears to be temporary rather than permanent, that could boost your wealth in 2023.

Pinduoduo

Pinduoduo (NASDAQ:PDD) is a Chinese technology stock that I started buying just recently. It is best known in North America for its Temu app, which lets Americans buy Chinese goods at low prices. There are other apps that let customers do this, such as AliExpress, but Temu keeps its inventory at American warehouses, so it has much shorter shipping times than AliExpress does. Unfortunately, Temu isn't available in Canada yet, but you can gauge its success by its number of app installs: it was one the most popular app downloads in the U.S. last year.

Apart from its service catching on, what makes Pinduoduo a good stock?

First, it's growing quickly. Over the last five years, PDD has grown its revenue at a rate of 123% per year, which is just phenomenal.

Second, it's newly profitable. In the first couple years after going public, Pinduoduo was one of those "high-growth, no-profit names," a promising but risky opportunity. Today, PDD is actually profitable, so the risk is now lower than it was in the past.

Third and finally, PDD is relatively cheap. At today's prices it only trades at 26 times earnings, which is absolutely unheard of for stocks growing revenue at 100% per year. So, the overall combination of growth, profitability, and value being observed here is phenomenal.

Shopify

Shopify (TSX:SHOP) is Canada's best-known e-commerce company. It develops a platform that lets people host their own online stores. This is in contrast to Pinduoduo, which owns a platform that users sell on directly.

Shopify is not growing as fast as Pinduoduo is. Its revenue only grew 22% in the most recent quarter, which is much slower than PDD's growth rate. It also isn't as profitable or cheap as PDD is: it is unprofitable and trades at about 12 times sales.

However, Shopify may have one advantage over Pinduoduo.

It's a Canadian company. Canada's market has been studied by international organizations and found to be safe to invest in, with investors possessing many rights. By contrast, many people think of China as a "risky" market, where investors have no protection. As a Pinduoduo shareholder, I disagree, but just remember that in the markets, perceived risk tends to prevail in the short term. By that score, SHOP has one advantage over PDD.

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