



Why You Should Buy Shopify Stock Before It Rockets Even Higher!

Description

Investing in high-flying growth stocks enables you to derive outsized gains over the long term. For instance, between its initial public offering and the bear market of 2022, shares of **Shopify** ([TSX:SHOP](#)) surged by a staggering 6,500%. Moreover, at its peak in late 2021, SHOP stock was the largest TSX company in terms of [market cap](#).

But when market sentiment turns bearish, growth stocks are pummelled, driving their valuations significantly lower. In 2022, Shopify stock traded 80% below all-time highs, wiping off investor wealth at a rapid clip.

At the time of writing, Shopify is valued at a market cap of \$87.3 billion and has gained 48% year to date. Let's see if you should add SHOP stock to your equity portfolio in February 2023.

Is Shopify stock a buy or sell?

Similar to most other e-commerce players, Shopify thrived amid the COVID-19 pandemic. The Canadian tech stalwart increased sales from US\$1.6 billion in 2019 to US\$4.6 billion in 2021.

After a pandemic-fueled rally, SHOP stock has trailed the broader market by a wide margin in the last year due to a deceleration in revenue growth and falling profit margins. In 2022, analysts expect Shopify to increase sales by 20% year over year to \$7.4 billion. While its bottom line might sink to a loss of \$0.06 per share compared to earnings of \$0.85 per share in 2021.

The reopening of economies and lower consumer spending, in addition to a challenging macro-environment, have acted as headwinds for Shopify in recent months.

However, over the long run, Shopify remains a top bet for multiple reasons. First, it is part of the rapidly expanding e-commerce market. This will allow the company to increase sales at a consistent pace going forward. Despite a slowdown, Shopify is on track to report revenue of \$8.8 billion in 2023, an uptick of 20% year over year.

Second, Shopify is the second largest e-commerce platform in North America, providing it with a wide economic moat. And finally, the tech heavyweight continues to expand its portfolio of products and solutions to improve the engagement of its merchant base. Shopify has allocated significant resources to build a network of fulfillment centres to streamline the supply chain of merchants on its platform.

We can see why I remain bullish on the long-term prospects of Shopify. But let's take a look at its valuation as well.

Is SHOP stock undervalued?

Trading 70% below record highs, Shopify stock is priced at 9.9 times 2024 sales, which is quite steep compared to its peers. But it's well below Shopify's historical estimates as the stock traded at an average of 30 times [forward sales](#) prior to the sell-off.

Investors are also worried about Shopify's falling profit margins. But the company continues to sacrifice profits for revenue growth. Yet, once its cost-base shifts lower, it can benefit from high operating leverage.

Shopify stock will most likely decline in the case the broader markets experience another round of sell-offs in 2023. But for those with an investment horizon of 10 years, it makes sense to add this tech stock to your equity portfolio right now.

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