Shopify Stock: Incredible Bargain or Deceptive Trap?

Description

Investors contemplating whether to invest in **Shopify** (TSX:SHOP) stock continue to struggle with a burning question. Is the e-commerce behemoth an incredible bargain or a deceptive trap?

Let's try to answer that and see if Shopify warrants a place in your portfolio.

What Shopify does, it does great

Shopify is a tech outfit that runs an e-commerce platform, which it does very well. In fact, it does so well that the company name has joined a select few on the market to become a verb in retail circles.

In terms of scope, Shopify is responsible for a massive (and growing) amount of global retail transactions. The platform has representation across over 170 countries and is responsible for over US$444 billion in global economic activity. That's a staggering amount which represents 10% of all U.S. e-commerce transactions.

Let that market saturation sink in for a second.

And despite that immense hold on the market, Shopify has only been around for just over a decade. In that time, the company hasn't stood still. Shopify has expanded its platform with over 10 different acquisitions over that period.

Many of those acquisitions provide add-on capabilities to Shopify's platform in a growing range of areas such as inventory management, fulfillment, and support.

Shopify's business took off when the pandemic started and businesses were forced to close and shoppers turned online. That pandemic-induced bump evened out last year as stores began to re-open and customers opted for in-person shopping.

This led to Shopify's stock erasing most, if not all, of those pandemic gains. As a result, the stock is down over the trailing 12 months by over 40%, yet up year to date by over 20%.

That pandemic blip aside, Shopify sounds like an incredible bargain for long-term investors. But do the results match those lofty expectations?

More on those results, and what it means

Shopify announced results for the fourth quarter this week. In that quarter, Shopify reported a US$623.7 million, or US$0.49 per share, loss. By way of comparison, in the same period last year, the company reported a US$371.3 million, or US$0.30 loss per share.

Shopify also announced updated guidance for 2023, but only for the next quarter. The company continues to forecast growth in revenue, gross margins, and expense growth.

Unfortunately, Shopify also noted the challenging environment the market is in, which could impact Shopify's profitability. Again, recall that weak consumer spending will impact Shopify's bottom line.

That being said, it's also worth noting that subsequent to the period covered by the report, Shopify bumped its pricing last month.

The market is evolving… and so is Shopify

Shopify is very dependent on consumer spending, and by extension, sentiment. If there's volatility in the market that is influencing purchase decisions, that will hit Shopify's results. And given the current bout of volatility thanks to rising interest rates and inflation, that's a big concern in the short term which is driving Shopify's stock down. But does it make Shopify an incredible bargain or a deceptive trap?

More specifically, what about the longer term?

Shopify still boasts plenty of growth potential over the longer term. Unfortunately, many investors remain focused on the more immediate short term, which is rife with uncertainty and the lower guidance announced this week.

Final thoughts: Is Shopify an incredible bargain or a deceptive trap?

No stock is without risk, and in the case of Shopify, that risk is substantial. That being said, the reward related to that risk is also substantial, particularly for investors that keep the focus on the longer term.

In my opinion, a small position in Shopify is warranted, provided it's part of a larger, well-diversified portfolio.

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dafxentiou