



Up by 25%: Is Shopify Stock Finally a Buy in 2023?

Description

Canada's erstwhile tech superstar is back in familiar territory after a forgettable performance in 2022. **Shopify** ([TSX:SHOP](#)) trades at \$58.70 per share for a year-to-date gain of nearly 25%. But given the mixed reactions to the full-year 2022 financial results and softer guidance for Q1 2023, is the e-commerce software company finally worth buying this year?

Stellar-to-dismal returns

Shopify delivered stellar returns in 2019 (+187.2%) and 2020 (+184.7%) to become the darling and face of Canada's information technology sector. It was also a TSX30 winner for three consecutive years, claiming the top spot in 2020 and ranking second in the 2019 and 2021 editions of the flagship program for [growth stocks](#).

However, SHOP stock's total return declined significantly in 2021 (+21.68%) before losing 74.8% in 2022. The fall began on February 16, 2022, when management projected lower revenue and rising expenses for the year. Shopify dropped 17.1% to \$93.89 on the day. By October 11, 2022, the stock price hit rock-bottom at \$35.37.

Management expected the material impact of an inflationary environment on consumer spending. Moreover, the easing of COVID restrictions worked against online shopping. In Q1 2022, Shopify acquired Deliverr to enhance its logistics and inventory management capabilities. The logistics software didn't help with the deteriorating top-line growth and shrinking margins.

Ominous reporting date

Many investors expect a bull market and rebound in [tech stocks](#) in 2023. Incidentally, Shopify reported its Q4 and full-year 2022 results on February 16, 2023. The reporting date could be ominous because the stock price fell 15.5% to \$60.39 instead of rising.

In the 12 months that ended December 31, 2022, total revenues (subscription and merchant solutions)

increased 21.4% year over year to US\$5.6 billion. However, the net loss reached US\$3.5 billion compared to the US\$2.9 billion net income in 2021.

Still, Shopify President Harley Finkelstein said, “The strength of our Q4 and full-year performance in 2022 is a testament to the resilience of our merchants. Despite persistent macroeconomic challenges, they continued to succeed on Shopify, growing sales and using more of our mission-critical tools to run their businesses.”

Changing landscape

Finkelstein further said, “Our platform and solutions enable our merchants to stay ahead of the dynamically changing commerce landscape. We know the commerce evolution is not relegated to just e-commerce or retail; it’s about commerce being everywhere, for everyone.”

The tech giant had to let go of 10% of its staff (about 1,000 workers) in the summer but gave an assurance there will be no more layoffs. Regarding the guidance, management expects revenue growth to be in the “high teen percentages” for Q1 2023.

Published reports say that ARK Investment Management’s high-profile fund manager, Cathie Woods, bought 609,763 shares (US\$36 million) of Shopify on February 16, 2023. The investment firm said the nosedive was a chance to buy the tech stock at a discount. Market analysts covering SHOP have a 12-month average price target of \$75.84 (+29.2%).

Long-term horizon

The bounce back of Shopify is doubtful, and it’s unclear if it can do better in the next quarters. Given these uncertainties, you would be best to have patience and a long-term horizon to invest in the e-commerce champion.

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