Shopify Inc.: Buy the Dip

Description

It hurts watching a stock that continues to rise give up over 17% of its value in a matter of days. But that's exactly what happened with **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP). Many investors would prefer to sit on the sidelines and watch this one play out, but I'm taking a bullish approach: buy the dip.

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Shopify has been on notice ever since Andrew Left of Citron Research, a notorious short-selling firm, released an October report alleging that Shopify was an illegal get-rich scheme. And once Citron decides that something is a target, the company will double and triple down, publishing what it needs to make its point.

Now Left has released a report that states that the company is going to suffer when its clients can no longer do hyper-targeted advertising on **Facebook, Inc.** (NASDAQ:FB). Facebook is obviously in the limelight due to privacy concerns on the platform; thus, the level of granularity that you can achieve is incredible.

Here's the thing … I'm not that concerned. Facebook is a great advertising platform, but it's only one. There are many other platforms out there that allow for intention targeting, and lest we forget, **Amazon.com, Inc.** (NASDAQ:AMZN) is building out a massive ad network. Where better to advertise than on the largest shopping portal?

And then there are the actual partnerships Shopify has with both Amazon and **eBay Inc.** (NASDAQ:EBAY). If you're a subscriber on Shopify's platform, your goods will be sold through eBay and Amazon. The big ecommerce platforms get a small cut, but you get to be part of their marketing.

That's the real story here … Shopify has built out so many partnerships and connections that one distribution channel disappearing won't harm its customers all that much. Facebook is significant, but there are other equally important distribution channels.

That said, I believe you should take advantage of the fear and start buying shares of the company; buy the dip when fear is high. Here are a few numbers to support my argument …

In Q1 2012, Shopify had monthly recurring revenue of US$1.1 million. In Q3 2017, it was US$29.9

million, a CAGR of 77%. It has added a second line of business called merchant solutions, which now accounts for more than 50% of its revenue. As more goods are purchased and shipped, Shopify earns more money. By attaching its business to the success of its customers, Shopify is has an incentive to help the businesses as much as possible.

Another factor to support my argument is that the GAAP operating expense as a percent of revenue has dropped. In full year 2017, it was 57%, down from 59%. And in Q4 2017 compared to Q4 2016, it dropped from 53% to 49%. As it adds more customers, it can spread the sales, marketing, R&D, and general administrative costs across more customers.

It's possible that Shopify will continue to be bouncy as Citron attempts to derail the stock. However, Shopify's network is stronger than just one distribution channel. Don't get trapped in the noise. Buy the dip.

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