Shopify's Q2 Earnings Beat Hides 1 Dangerous Possibility

Description

Priced to perfection? Overvalued? Overrated? **Shopify** (TSX:SHOP)(SHOP) was upgraded by **Goldman Sachs** ahead of today's earnings report. The upgrade, with an estimated 15.4% upside potential attached, saw Shopify gather some last-minute upward momentum. It's been a highly irregular couple of months since then, though. Then the report broke, shining a light on almost doubled revenue, and Shopify gained 7%.

So the upgrade was a good call. And Shopify is doubtlessly in the right place to cash in on the push toward an e-commerce model for retailing. But just like Shopify's Q1, its victorious Q2 hides the fact that a post-pandemic economic recovery could see a backslide in the digital giant's fortunes. Indeed, investors already got a taste of the future when Shopify dipped recently on a potential vaccine breakthrough.

Some tech stocks have a vaccine allergy

When Shopify was basking in its Q1 glory back in early May, I was skeptical that it could replicate the sudden growth revealed by that quarter's report. The company itself was dubious, too, nobly pointing out that it was "unclear how sustainable consumer spending levels will be in this uncertain economic environment." On the face of it, a decent Q2 puts this concern to bed. But is Shopify delaying the inevitable?

Back then, I was bullish, albeit with caveats: "New store growth was an incredible 62% in the last quarter;" I wrote. "But that may not be replicable as the economy gears up for re-opening. Would-be Shopify shareholders may therefore want to wait for a pullback and buy the dip."

A dip was a long time coming, and when it did come it was largely unremarked upon. A potential vaccine breakthrough from **Moderna** sent some tech stocks into a broad pullback that didn't generate as much caution as it perhaps should have done. Shopify lost 10% in the process.

A dangerous market for overvalued stocks

Up 4.2% for the five days preceding its Q2 report, Shopify benefited in part from the Goldman Sachs upgrade from Neutral to Buy. The bank is doubtlessly right to be bullish, estimating Shopify's addressable market at US$200 billion. What's more, with e-commerce spending more than doubling during the pandemic, Shopify straddles a fairly certain economic moat. But this is still a tech stock of the speculative breed rather than a reliable heavy-hitter.

Additionally, Shopify's range of estimated price targets is broad. Expectations range upwards from a bearishly low target of $493. Estimates then gallop through median and mean targets of $1,050 and $1,006, respectively, all the way up to a high target of $1,687. Shopify shareholders should therefore be concerned. Its current price tag of $1,326 a share is considerably higher than its reasonable targets.

Shopify's Q2 is likely to be the main talking point for **TSX** investors, and North American tech investors for that matter, for weeks to come. But those price points, combined with Shopify's recent 10% dip on vaccine hopes, do not augur well for the near future.

Current shareholders may therefore want to consider reducing their exposure ahead of its next report.

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