Shopify Reminds Me Of Tesla In 2013

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Special situations, event-driven, momentum

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Summary

- Shopify's fundamental valuations put it as one of the most overvalued stocks in the current market.
- Exponential revenue growth is still in its beginning phases, and valuations in metrics like P/S resemble that of Tesla in 2013.
- Although the fundamentals and financials don't necessarily back the strength of the current rally, those don't need to, as Shopify's potentials remain sky high.
- Valuations don't always show the full story behind a company's current picture and potential, and long-term vision would see lofty valuations fall in stride over time.

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GILD	76.52	2.42%
CATB	526.75	0.00%
WVO	95.98	-0.08%
ABEN	3,107.22	-0.44%
VRNT	42.95	0.00%
ACN	219.53	-0.38%
CHD	81.71	-0.02%
DIS	188.72	-0.94%
GOOGL	1,509.21	-0.69%
AAPL	380.30	-0.64%
SHOP	1,030.32	-0.93%
FB	241.47	-1.24%
BABA	258.14	-2.08%

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Shopify (SHOP) soared through Q2 as one of the top performers across the broader market, with shares topping the $1,000 threshold just months after bouncing around the $300s. At current prices, Shopify's market cap sits near $120 billion. To put that in perspective, that's double that of Square's (NYSE:SQ) and one-third that of recently partnered Walmart (NYSE:WMT). Yet Shopify is still unprofitable and is probably one of the most (if not the most) overvalued stocks based on fundamentals, but shares are still soaring higher. And shares could continue to cruise higher even as fundamental metrics and financials don't necessarily back that growth.

Shopify's Financials Aren't Great...

Even though Shopify has powered higher on the back of a strong Q1, with solid growth in revenue, total GMV and new stores, annual incomes are still down in a rut. Operating and net loss for Q1 were worse YoY: operating loss increased to 16% of revenue as opposed to 11% a year ago, and net loss widened by ~47 million (~30%). That might not sound too bad, however, as the first quarter did boast unprecedented challenges, but Shopify's annual incomes are a bit more shocking.

Revenues for Shopify are starting to trend exponentially, crossing the half-billion-dollar threshold in 2017, and triple that already by 2020. Revenues are expected to continue growing at a similar, high-30% rate as the adoption of e-commerce continues to rise as opposed to traditional retail in the upcoming years.

Yet Shopify's net losses are only becoming worse and still show signs of increasing again for this fiscal year, based on Q1 net loss and operating loss widening YoY. Annual net loss has doubled since 2018 and is six times that of 2015's loss of $18.8 million; that's moving at nearly the same rate as revenues, but in the opposite direction.

Data by YCharts

But Q1 historically is Shopify's "best" quarter aside from Q4; revenues have shown quarterly growth in Q2 and Q3, but also wider net losses in each of the two quarters compared to Q1. If this trend continues, albeit under different circumstances potentially for much of the rest of the fiscal year, Shopify could easily continue its trend of deteriorating net losses.