

# Shopify: Great Business, Overvalued Stock

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## Summary

- Shopify stock has exploded in 2020 due to the coronavirus pandemic repricing.
- The stock's valuation has soared to nosebleed levels.
- The technical suggest a bid decline is coming.
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Shopify (SHOP) is another example of a great company with an effective business model. Shopify stock has been performing extremely well, but there are fears that it is highly overvalued, and that it is likely to face considerable headwinds in the future.

SHOP has soared in 2020 as investors have focused on stay-at-home trades and companies that would benefit from the coronavirus pandemic - which Shopify certainly has. The biggest problem for Shopify, though, is that it has also seen its multiples and expectations for future growth valuation rise with it. The PE ratio has risen to 191 times the 2022 earnings estimates, along with its price-to-sales ratio soaring to 22 times the 2022 forward sales estimates. Even the EV to EBITDA ratio soared to 155 times the 2022 earnings estimates. All three are very high valuations for Shopify.

### SHOPIFY SUBD.VTG.SHS.'A'



This is not to say that Shopify is not expected to achieve high growth - it is. Analysts are looking for earnings to grow this year to \$3.68 per share from \$0.30 per share last year, and then to \$3.52 per share in 2021. It will then rise by another 40% in 2022 to \$4.84 per share. Overall, this amount of growth comes to a compound annual growth rate of 152% over that three-year period.

In addition to the increase in earnings per share, revenue is also expected to rise dramatically this year by about 80% to \$2.8 billion from \$1.5 billion in 2019. It is expected to rise by an additional 32% in 2021 to 3.7 billion and another 35% to 5.1 billion in 2022. This comes to an impressive 47% compound annual growth rate over the same three-year period.

It certainly seems as if Shopify is fairly valued given its massive earnings growth rate, but if you dig a little deeper into the data, it becomes clear that Shopify doesn't quite live up to its high valuations.

With a 3-year compound annual growth adjusted PEG ratio of 1.25, it would continue to suggest that SHOP is reasonably well valued since we typically look for PEG ratios between 1 and 1.5. This seems to be a bit of a stretch though since earnings are expected to decline in 2021 to \$3.52, before reaccelerating in the following years.

When we look at Shopify on a price to sales multiple, however, it's certainly a different story. SHOP trades at 22 times the 2022 earning sales estimates, which is the highest in its peer group and well above the average of the group. When we look at the average of Shopify's peers, what's interesting is that the stock trades at 22.1 times the 2022 sales estimates. The average excluding Shopify, however, is only around 5.9 times the 2022 earning sales estimates. Further, while Shopify may have a very fast growth rate, it isn't necessarily the fastest. In fact, analysts expect Pinterest (NYSE:PINS) and Alibaba (NYSE:BABA) to have grown as fast or faster next year at 40% and 31% respectively.

Company Name	Revenue (Mill) (FY19 Conf)	Revenue (Mill) (FY20 Est)	% Chg	Revenue (Mill) (FY21 Est)	% Chg	Market Value (Bil) (FY19 Conf)	Market Value (Bil) (FY20 Est)	Market Value (Bil) (FY21 Est)
Pinterest Inc	1,475,248,000	2,389,480,000	62.3%	3,141,366,000	31.4%	17,254,460,000	21,250,000,000	23,150,000,000
Alibaba Group Holding Ltd	5,490,000,000	7,076,700,000	28.7%	8,922,700,000	26.1%	21,264,700,000	25,000,000,000	28,000,000,000
Paycom Software Inc	2,413,324,000	2,620,148,000	8.7%	28,252,000,000	97.2%	20,548,000,000	20,548,000,000	20,548,000,000
Paycom Software Inc	60,027,000,000	65,420,200,000	9.0%	70,824,000,000	8.3%	28,252,000,000	28,252,000,000	28,252,000,000
Alibaba Group Holding Ltd	309,326,572,000	328,800,400,000	6.3%	357,230,000,000	8.5%	213,833,000,000	20,492,000,000,000	20,492,000,000,000
Alibaba Group Holding Ltd	27,210,000,000	29,000,000,000	6.6%	30,970,000,000	6.5%	2,000,000,000,000	2,000,000,000,000	2,000,000,000,000
Shopify Inc	15,105,000,000	18,897,000,000	25.8%	23,786,000,000	25.9%	22,118,000,000	22,118,000,000	22,118,000,000
Shopify Inc	142,000,000,000	142,000,000,000	0.0%	142,000,000,000	0.0%	400,000,000,000	400,000,000,000	400,000,000,000
Average			19.06%		16.06%			5.92

Finally, if we were to apply a 5.9 multiple to Shopify's current valuation, you would get a much lower market price than what we are seeing right now. In fact, Shopify would probably only be worth about 25% of its current value. Clearly, when examining the data more closely, it becomes hard to justify Shopify's current valuation.

When looking at the technical data behind the numbers, it becomes clear that SHOP is potentially on the cusp of a significant breakdown.

The big question concerning that breakdown is how far SHOP could fall. If it breaks \$910 and it falls to \$850, you could actually see a really huge drop in the stock to around \$740. This sounds severe, but the odds for this are good given the significant loss in momentum based on the relative strength index. Already over the past few months, we have seen SHOP trending lower after reaching peak overbought levels in July which suggests a bearish trend for the stock. Additionally, there is a bearish megaphone pattern that has been forming in the stock, which again indicates that it might drop to around \$740.



Overall, Shopify is another example of a business that has tremendous opportunities for growth down the road. This does not mean that the stock price accurately reflects exactly what those opportunities are, and it may very well be the case that this is another example of a stock that's likely overachieved what its true business reflects at this point.

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I think SHOP will do just fine and keep growing a ton, but, rather, it is this analysis that is overvalued.

13 Nov 2020, 05:00 PM Like 1 Reply

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🌟BAMI🌟

Sanrio Company, Ltd., owns the brand Hello Kitty and they just launched ([Sanrio.com/...](#)) on Shopify:

<https://www.sanrio.com/>

Sanrio is a \$10BILLION revenue company.

I wonder how many \$B-B-BILLIONS/year in GMV they will sell through Shopify through this store and any other Shopify stores they add too???

They didn't choose BigCrash, or cruddy WIX, or Who's Woo, or Nosedive Magento, etc.

They choose Shopify like most real businesses with real GMV do. Just in time for CHRISTMAS too.

[👍👍👍](#)

13 Nov 2020, 04:50 PM Like 0 Reply

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With all the crypto craze lately, it's good to point out Shopify supports cryptocurrencies (Bitcoin, Ethereum, Litecoin, amongst 300+ digital currencies ([help.shopify.com/...](http://help.shopify.com/...))), PLUS has integrations with over 100 other payment providers around the world ([www.shopify.ca/...](http://www.shopify.ca/...)).

Long Shopify.

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So do you have skin in the game via shorts? If not why do you even make comments?

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