



Time to Buy a Bike or a Bike Stock?

Description

One of humanity's great inventions, the bicycle, has become a popular alternative to the gas-powered vehicle. Bicycling reduces traffic congestion, cuts greenhouse gas emissions while improving one's physical health. People love bikes. But sales of Montreal-based **Dorel Industries Inc.** ([TSX: DII.B](#)) were hurt in first quarter 2013 due to poor weather in the U.S., Canada and Europe. And worse, for the stock anyway, this trend is expected to continue.

Dorel, the maker of Cannondale, Schwinn and Mongoose bicycles, recently stated that second-quarter sales will be sluggish and full-year sales will not exceed 2012 sales as previously stated. The company plans to cut 50 jobs and record \$2 million in severance in the second quarter. Worse yet, the sluggish sales environment is being compounded by widespread discounting by competitors in the bicycle industry. This won't be good for Dorel stock in the near-term, but it may be a good time to buy a bicycle.

Dorel's stock fell 10% in the five days after cutting its bicycle sales outlook on June 13. The stock has posted zero gain year-to-date through June 18 while its competitors have posted double digit returns.

Long Winter

"These issues in bicycles are mainly related to matters beyond our control," Dorel President and CEO, Martin Schwartz, said in a statement. "Our bicycle products are proven and our brands remain very strong. Cannondale continues to attract both excitement and highly positive comments. The reality is that we are now into mid-June and the weather has not improved sufficiently which means that we will be unable to make up the accumulated year-to-date sales shortfall. With the cost reductions being implemented, we are optimistic that bicycle earnings in the second half will increase double digit over last year."

Competitors

Given the Dorel's unique mix of bikes, baby, and home furnishings, there aren't really any direct comparisons for it. There are however two more "pure-play" bike manufacturers that we can look to for a comparison.

Two of the biggest companies on the cycling block are Taiwan-based **Giant Manufacturing** and Japan-based **Shimano**. These stocks were up 14% and 45% respectively year-to-date (through June 18th). Clearly, they have not been impacted by the slow-down to the same degree as Dorel. Yet. As indicated in the table below, these companies trade at a significant premium to Dorel, and therefore, should they experience a decline in their business, the stocks could take a hit.

Company Name	Yield	P/B	P/E
Dorel Industries	3.4%	0.8%	11.0
Giant	2.9%	4.3%	20.1
Shimano	0.2%	3.2%	26.5

Source: Bloomberg

Foolish Bottom Line

Dorel has some great products, but weakness in sales and widespread discounting in the bicycle market will hold this stock down in the near term. Margins likely will not improve this year even though Dorel is cutting expenses. Longer-term however, the bicycle should benefit from those of us who are looking for ways to reduce our carbon footprint and cut expenses for gas. Good news for Dorel.

The market has always had a tough time figuring out what to make of Dorel and its unique mix of businesses. Our special **FREE** report "**3 U.S. Companies That Every Canadian Should Own**" looks at 3 businesses that have never had this issue. Because they're awesome! [Click here now](#) to download this report.

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CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DII.B (Dorel Industries Inc.)

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