Are We in the Midst of a Canadian Retail Revival With Rona Inc.?

Description

For the most part, the Canadian retail sector has been a barren wasteland for investors, with few options for portfolio gains. The retreat by **Target** has only compounded the matter, and finding viable home grown options is becoming more difficult. More often than not investors ignore the retail sector in favor of Canada's two most investable industries: energy and banking. This line of thinking can leave you with an unbalanced portfolio, especially with low oil prices and low interest rates.

Having an investment in Canadian retail can give a small part of your portfolio some steady long-term gains to offset any wild swings in the market. Over the past few years, the two of the top performing retail stocks have been **Canadian Tire** and **Dollarama**, but **Rona Inc.** (TSX:RON) just might shake things up.

Rona revival

Not long ago, Quebec-based Rona was struggling against its American counterparts, and suffering from the post-2008 housing slowdown in Eastern Canada. Many began to doubt the long-term viability of the company, especially when the stock price dipped below $9.00 in 2011. Things began to look equally bleak last year when a brutal winter crippled the housing and renovation market in Canada.

In an effort to turn around the company, management decided to close 11 underperforming stores in Ontario and in Western Canada, and in doing so, projected to save $110 million a year. Many expected any type of turnaround to take several years to materialize, but now it appears that Rona may have already pulled it off.

During 2014, Rona managed to accomplish a same-store sales increase of 6%, a number once thought to be unreachable for the company. This was also backed up with a 9.3% increase in Rona's distribution business, a segment that has been steadily growing.

Rona results

During the fourth quarter, Rona managed to boost its adjusted net income from $4.6 million to $17.3 million, while EBITDA also saw an impressive increase to $52.5 million from $36.1 million in Q4 2013. All of this was brought about thanks to revenues of $971 million, up from $941 million because of same store growth. The most impressive percentage increase was in Rona's net income per share, which increased 275% from $0.04 to $0.15.

Rona's year-end results are also very encouraging despite revenues dropping to $4.09 billion from $4.19 billion. EBITDA in 2014 rose by 27% to $235 million from $185 million last year, while net income returned to the black by totalling $65 million up from the net loss of $45 million in 2013.

This number could have been higher, but Rona spent $94.2 million in stock repurchases throughout the year. Rona has also been able to control its debt levels, with net debt now at $169 million and only

$65 million of its available credit facility of $700 million utilized.

Rona’s rebirth

The bulk of Rona’s turnaround actions began in the summer of 2014, so it will be an interesting year to follow the company’s financials. If quarterly reports in Q1 and Q2 match up to the recently released Q4 2014 report, it should create a couple of opportunities for the stock to take a noticeable increase. Same-store sales may have only increased 1.1% in 2014, but this is the first time in eight years Rona has experienced this type of growth.

The 6% rise in Q4 same-store sales creates some intrigue to see if this is just a recovery from last winter or the start of an actual turnaround. The share price doesn’t appear to be ready to soar back to the $24.00 range it reached seven years ago, but in this case we are looking for steady earners to offset sways in the market. Rona’s stock closed at $14.13 on Wednesday, just above its average price target of $14.00.

CATEGORY

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