Traditional Retailers May Be Suffering But This Stock Will Soar

Description

Retailers are under considerable pressure as the industry undergoes a massive transformation precipitated by the advent of e-commerce. The latest in a slew of bad news for the industry is that deeply embattled **Sears Canada Inc.** (TSX:SCC) has stated that it doubts it can continue as a going concern. This forms part of the overall malaise that has hit traditional brick-and-mortar retailing, which has claimed a range of victims in recent years because of shrinking margins and, most significantly, growing e-commerce sales.

Now what?

Many main street retailers are feeling the pinch because they lack the ability to compete with e-commerce retailers who have far lower expenses, higher margins, and a global reach. Losses are mounting across the industry as consumers transition to making more purchases online from the comfort of their own homes.

The impact of e-commerce on traditional brick-and-mortar retailing and the pain being felt by industry participants is evident in the latest results from Sears.

For the first quarter 2017, revenue declined by 15% year over year, the company's gross margin fell by 5.6%, and its net loss more than doubled $144 million. Management has said that the business could very well fail in coming months because of recurring losses and declining revenue; cash and forecast cash flow is insufficient to meet the company's financial obligations.

It isn't only Sears that is suffering.

Hudson's Bay Co. (TSX:HBC) saw retail sales fall by 3% year over year for the same period, and its net loss grew by more than double to $217 million.

Because of those ongoing losses, management has taken a knife to Hudson's Bay's dividend, slashing it by more than a third to $0.06 per share for 2017.

I don’t expect the situation to improve for traditional brick-and-mortar retailers any time soon.

You see, e-commerce is expanding at a rapid clip.

According to Statistics Canada, by December 2016 the value of e-commerce sales when compared to January of that year had more than doubled to $1.7 billion, which represented 3.4% of all retail sales. For 2017, analysts have forecast that Canadian e-commerce sales will expand by 9.9% and keep growing at roughly that rate year over year for the next four years.

Globally, the rate of growth is projected to be in the double digits with total e-commerce retail sales expected to top US$4 trillion by 2020. That will be a boon for e-commerce specialists such as **Amazon.com, Inc.** and **eBay Inc.**

So what?

The growth in e-commerce will also underpin further spectacular growth from Canada’s latest success story, **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP). The company has soared by 207% since first going public on the NYSE in late May 2015.

That may sound like an incredible figure, but there is still phenomenal growth ahead.

Not only does the forecast of double-digit growth of e-commerce sales globally bode well for its growth prospects, but Shopify’s unique value proposition means that it has very little direct competition. It operates globally, providing a scalable solution for businesses seeking an online presence that allows them to establish, operate, and manage sales across multiple channels, including the web, social media, and physical stores.

For the first quarter 2017, monthly recurring revenue grew by 62% year over year, and gross merchandise volume surged by 81%. This saw gross operating profit surge by 80% to $72 million for the quarter.

It is clear that Shopify has yet to complete its growth phase, and that the projected explosion in e-commerce will be a powerful tailwind for the company. Even after its already stunning threefold gain, I expect its shares to continue appreciating at a solid rate.

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