



## The 1 Retail Stock to Buy Before the Holidays

### Description

It's never too early to think about buying that special something for your significant other, and have I got just the stocking stuffer. No, I'm not talking about a gift card from **Aritzia Inc.** ([TSX:ATZ](#)) or one of Canada's other specialty retailers.

I'm talking about **Indigo Books and Music Inc.** ([TSX:IDG](#)), the stock — a wonderful gift for anyone who likes capital gains in their stocking.

It's been awhile since I've covered the retailer's business (February of this year, to be exact). Recently, I was in the Indigo store at Yorkdale Mall in Toronto. I hadn't been there for a while, but boy, has the company done an excellent job transforming store to reflect the changes in its product offerings.

Yes, we all know it hasn't been exclusively a bookstore for some time, but you still feel like you're in a bookstore, despite the toys, gifts, technology, etc. that also fills the square footage. It actually looks better despite the fact there are fewer books. Kudos to its merchandising and store design teams. They've done well, in my estimation.

The visit to the store naturally twiggd my brain about Indigo's stock. I'd lost track of it since I [recommended](#) it in February along with CEO Heather Reisman's husband's company, **Onex Corporation** ([TSX:ONEX](#)). If there's another example of a husband-and-wife team in charge of two public companies, I can't think of it. If I do, I'll write about it.

Anyway, since my February article, IDG stock is down 3.4%, while ONEX is up 6.7%, for anyone keeping track. To me, this lack of performance says more about how awful the TSX is right now than it does either company, but especially Indigo.

### Look at the numbers

The company announces Q2 2018 numbers November 1. If they're anything like the first quarter, IDG shares are going to pop on the news. Indigo set a record for Q1 revenue of \$206.3 million, 6.8% higher than a year earlier with same-store sales growth of 5%, including online revenue.

Breaking the numbers down, its superstore format grew 2.4%, its small format stores rose 2.9%, and online sales grew 20.5%. The online growth was a significant improvement over Q1 2017, when it was virtually flat. Online sales accounted for 14.5% of total revenue — 160 basis points higher than a year earlier.

Here are some other noteworthy things about the quarter.

First, its operating loss (a traditionally slower quarter) was \$7 million — \$5 million less than a year earlier. That's important when you look at adjusted EBITDA, which was positive at \$0.1 million compared to -\$6.1 million a year earlier. That's very good.

Second, general merchandise, which has higher profits than books, accounted for 36.4% of overall revenue in the first quarter — 230 basis points higher than a year earlier. In fiscal 2017, general merchandise was 37.7% of total revenue — 320 basis points higher than in 2016. It's possible that the category could go over 40% in fiscal 2018.

Third, its cash position in the quarter increased by \$19.9 million to \$196.7 million, including \$100 million in short-term investments between 90 and 365 days. Cash is king.

Lastly, it invested \$2.7 million for a 20% investment in Unplug, a Los Angeles-based meditation studio that provides online classes and corporate classes in addition to those held at the studio. Very early in the investment, it's an indication the company's gotten more confident about its cash flow variability. That's always a plus.

### Where to go from here

The analyst estimate for IDG in 2018 is \$1.19 and \$1.37 in 2019. That's a 2019 forward P/E of 12, lower than it's been since 2010. Should the TSX ever get off the mat, IDG will be at the front of the line of stocks destined to move higher.

If you're going to buy an Indigo gift card for that special someone this holiday season, don't forget to buy the stock, because over the next 12 months, it will return the cost of the card, and then some.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:ATZ (Aritzia Inc.)
2. TSX:IDG (Indigo Books & Music)
3. TSX:ONEX (Onex Corporation)

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