3 Stocks to Buy Instead of Roots Corp.

Description

They say the devil is in the details.

Roots Corp. (TSX:ROOT) raised $200 million in its IPO by selling 16.7 million shares to the public at $12 per share. Also, the selling shareholders have given the underwriters up to 30 days after the IPO's closing date to buy an additional 2.5 million shares on a pro-rata basis, also at $12.

It's important to note that the company won't receive any of proceeds from the IPO — a real red flag, in my opinion, when it comes to public offerings. But that's not even the biggest reason I believe investors should steer clear of Roots stock for the foreseeable future.

The most significant reason for me is that despite its stock being priced at $12, $3 below the midpoint of the targeted range of $14-16, its enterprise value is $624 million, or 14 times its adjusted EBITDA of $45 million.

I can think of at least three Canadian retail stocks (in order of preference) that have a similar valuation and that will be better investments over the long haul.

I've said this on more than one occasion, but there is no better Canadian retailer than **Lululemon Athletica Inc.** (NASDAQ:LULU), which has managed to sidestep the slowdown in retail by product innovation and a CEO focused on the long term.

Barron's recently featured an article contributed by MKM Partners, a U.S. research firm, that called LULU an outlier in an otherwise terrible retail industry.

"We believe only Lululemon Athletica (rated at Buy, $75 price target) and **Coach** (COH) (rated at Buy, $59 price target) have radio-frequency identification (RFID), which we view as critical for managing inventory seamlessly across channels," wrote MKM Partners on October 23.

Lululemon wants to hit $4 billion in revenue by 2020; it's well on its way. Why buy Roots stock when you can have the best Canadian retailer for about the same valuation and a much stronger balance sheet?

LULU's enterprise value is 15.2 times its 12-month trailing EBITDA of US$503 million.

In the value and small-cap play of the bunch, I have to go with **Indigo Books and Music Inc.** (TSX:IDG), whose enterprise value is 4.6 times EBITDA. If CEO Heather Reisman isn't careful, her private-equity husband (Gerry Schwartz) will make an offer she can't refuse.

I recently called Indigo the one retail stock to buy before the holidays, and now that I look more closely at its valuation, I'm glad I did. Indigo is a company that just doesn't get the respect it deserves. Growing at a pace that isn't much different than Roots, it has better EBITDA than Roots, and like Lululemon, a better balance sheet.

Its stock is one of the better values out there.

Lastly, despite the difficulties **Canadian Tire Corporation Limited** (TSX:CTC.A) is having growing sales at the legacy brand — 1.4% same-store sales growth in Q2 2017 — the rest of its business is humming along nicely. Mark's had 4.6% same-store sales growth through the first two quarters of the year and $342 in sales per square foot contributing nicely to the retail segment's $397 million in EBITDA.

The top line might not be growing at double digits, but the bottom line comes close not to mention it has a decent dividend payout.

Canadian Tire's enterprise value is just 10.7 times EBITDA making it a better value than Roots.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:LULU (Lululemon Athletica Inc.)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:IDG (Indigo Books & Music)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/08/18
Date Created
2017/10/30
Author
washworth