2 Attractively Valued Retail Stocks I'd Buy With an Extra $2,000

Description

Brick-and-mortar retailers aren't dead, nor are the shopping malls.

In fact, the Vancouver-based malls I've been to are the most packed they've ever been! Unlike our friends in the U.S., the brick-and-mortar retail scene is very much alive and well. And that's a huge reason why Toys "R" Us is still an incredibly attractive business on this side of the border, at least according to Prem Watsa, who scooped up the Canadian chains a few weeks ago.

If you're not buying the "death of retail" thesis like some overly pessimistic bears, now may be the perfect time to scoop up solid retailers that have continued to thrive while co-existing with their disruptive digital counterparts.

Without further ado, here are three attractively valued retailers I'd consider buying at current levels:

Canadian Tire Corporation Limited (TSX:CTC.A)

It shouldn't come as a surprise to see Canadian Tire in the top 10 list of companies that Canadians admired most in 2018. The iconic retailer has built a solid reputation for itself over the course of many decades, and with a brick-and-mortar location in close proximity to the average Canadian, the company actually has a pretty wide moat that management continues to build upon through the acquisition of new exclusive brands.

In previous pieces, I'd noted that Canadian Tire is an example of a company that's relatively insulated from profound disruption by e-commerce competitors because of the nature of the products it sells. Tires, hockey sticks, and home improvement equipment aren't necessarily items that you'd want to buy online. Shipping costs would likely be uneconomical for consumers, and it'd take a lot longer to wait for an item to ship compared to heading down to your local Canadian Tire, which is probably a short drive away.

As one of Canada's most admired brands, the stock certainly isn't nearly as admired by investors after dipping ~7.5% from peak to trough. The stock trades at a very modest 13.9 times forward earnings with a ~2.2% dividend yield that's over 35% higher than the company's five-year historical average yield.

Roots Corp. (TSX:ROOT)

Roots is another iconic Canadian brand whose stock, I believe, is trading a lot lower than where it ought to be. The clothing retailer faces an opportunity to grow its same-store sales growth and direct-to-consumer numbers by the high double digits over the foreseeable future, as management continues to leverage technology to its advantage.

Unlike other generic clothing retailers, essentially everything that Roots sells in its stores is exclusive to Roots, so digital disruptors are going to have a really difficult time dethroning roots of the brand power that it's built for itself throughout the course of time.

Of the 2017 IPOs, I certainly think that Roots stands to be one of the biggest winners over the next three years, as management hits the gas on the sales-growth front. On the surface, Roots shares may seem expensive at about 30 times trailing earnings, but when you consider the magnitude of top-line and bottom-line growth potential on the horizon, I'd say the "premium" price tag looks absurdly cheap when compared to the likes of a **Canada Goose Holdings Inc.**

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