This Iconic Canadian Retailer Could Double in 2 Years

Description

When it comes to Canadian brands, it's hard to find one that's more Canadian than **Roots** (TSX:ROOT) with its iconic beaver and branch logo. While the brand is well known in Canada, the same can't be said south of the border, and that has many investors wary, as Roots moves to expand into the red-hot U.S. market. At the international level, the brand is pretty unknown compared to the likes of a **Canada Goose**, but are investors overly skeptical on the company's U.S. expedition?

Investors are overly pessimistic after a "weak" Q1 fiscal 2018

Roots's last quarter was underwhelming, to say the least. The company missed on sales, which were essentially in line on a year-over-year basis. While you could blame the miss on the seasonally weak quarter, many investors don't seem to be willing to give the company or the time of day and have been throwing in the towel, most likely because other retailers like Canada Goose and **Aritzia Inc.** have clocked in incredible results in spite of the seasonally weak quarter for apparel.

I think the quarter wasn't as bad as the general public made it to be, and with Roots stock now below its IPO price, I think investors have a delicious entry point that could result in substantial gains over the medium term.

Gross margins improved by 300 basis points thanks in part to better inventory efficiencies, and the 9% year-over-year increase to direct-to-consumer (DTC) sales were encouraging. Higher SG&A expenses spoiled the party, however, offsetting improvements to gross margins and dampening a bottom line that appeared much uglier than it was.

Investors look to be overly skeptical with regards to Roots's growth drivers

In addition to growth in DTC sales, footwear and the company's U.S. expansion are medium-term developments that I'd be excited about. At these depressed valuations, I believe investors are setting their expectations to the floor, especially since some believe that the U.S. expansion could struggle in winning over consumers who are likely not at all familiar with the iconic Canadian brand. As such, I think investors are expecting the expansion to be a failure by default, which I don't think is a fair conclusion to make.

Foolish takeaway

Sure, there's a considerable amount of uncertainty with regards to its U.S. expansion, but with the bar already set low with the stock in the single digits, I think Roots has the potential to really surprise the skeptics, and that'll result in a massive upside correction that could see shares take off and potentially double over the next two years.

While the U.S. expedition is no guarantee of success, I think it'd be wise to not overly discount its growth potential, which I believe everybody is doing following the "lacklustre" Q1 fiscal 2018 quarter.

As such, Roots looks like a solid growth play with a remarkable margin of safety at the $9-10 levels and would encourage investors to load up if they're looking for a great retailer at an even better price.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:GOOS (Canada Goose)
3. TSX:ROOT (Roots Corporation)

PARTNER-FEEDS

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

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/03
Date Created
2018/08/07
Author
joefrenette