The 3 Worst Canadian Retail Stocks So Far in 2018

Description

It's reasonable to expect that at least one grocer could be among the worst-performing retail trade stocks this year, but the reality is that the automobile-related retailers and some marijuana-related retail stocks are among the poor performers so far in 2018.

AutoCanada (TSX:ACQ), **Uni-Select** (TSX:UNS), and **Namaste Technologies** (TSXV:N) are among the worst-performing retail stocks year to date.

Each has its own story.

Namaste Technologies

Down more than 53% year to date, Namaste Technologies is the worst-performing retail trade stock so far in 2018.

Namaste is an online retailer of medical cannabis-delivery systems globally. The company distributes vaporizers and cannabis-smoking accessories through its e-commerce sites in 26 countries and five distribution hubs around the world.

The company reported a weak gross margin of 21.5% for the quarter ended May 31, 2018 — far from a recent peak at 35.1% during the quarter ended February 2018. The quarterly loss more than doubled from its levels in the two previous quarters, fueled mostly by share-based compensation expenses growth.

The current protracted general dip in cannabis stocks is likely keeping Namaste's equity valuation depressed after a surprise 1,028% rally between November and December 2017 and severely stretched valuation multiples on the stock.

Notably, Namaste will soon no longer be a pure-play retail stock after getting a Health Canada cannabis production licence for a subsidiary.

There's the possibility for a share price rebound if the company implements its share-buyback program to repurchase up to 25,308,136 common shares, representing approximately 10% of the company's public float.

Further, Namaste recently applied for a NASDAQ listing in July and may implement a reverse stock split to meet NASDAQ share price requirements. The improved liquidity and market exposure from such a listing could confer similar benefits to the stock, as what happened to **Cronos Group Inc.**

That said, marijuana sector speculative forces remain at play, and valuation multiples can still go either way, but growth in Namaste's business is very much possible as legal recreational sales take off.

AutoCanada

The automobile dealerships giant's stock is down 35.82% year to date, and the 2.84% dividend yield on the shares won't make a difference.

AutoCanada is facing real threats in the automobile market in North America. The company has been reporting growing revenues since 2009 — however, with declining operating profit margins since 2014.

The company recently saw an exodus of long-serving senior directors, potentially signaling a serious corporate governance and strategy issue.

The receipt of a letter from institutional investor Clearwater Capital Management Inc. on June 11, urging the company to initiate a strategic review, saw AutoCanada set up a strategic review committee by June 17, but two long-serving senior directors, including the board chairman, resigned three days later.

The June 26th resignation of yet another director "to devote her time towards other significant opportunities" isn't encouraging, while the July 7th resignation of the senior vice president and chief operations officer is concerning.

Declining operating cash flows throughout 2017 have alarmed investors, and the threat of new auto tariffs from the U.S. and potentially weakening consumer automobile demand due to a general rise in interest rates hasn't been favourable to AutoCanada's valuation.

That said, recent demand growth in Canada and improved cash flow generation in the first quarter of 2018 bring new hopes. Let's look to the company's second-quarter report on August 10 to assess stock recovery prospects.

Uni-Select

The leader in automotive aftermarket parts distribution, automotive refinish, tools and related equipment trade has seen its share price tumble 22% so far this year.

Uni-Select reported no organic growth in its consolidated operations for the first quarter of this year, while revenue growth came from acquisitions. The combination of zero organic growth and falling operating margins is concerning, but promising results from the new United Kingdom subsidiary, The Parts Alliance, acquired in August 2017, may deliver positive growth.

The U.K. acquisition was the only segment that showed some significant organic growth of 4% on a standalone basis during the first quarter, but Uni-Select's new branch roll-out and acquisitions program in the U.K., U.S.A., and Canada could deliver sustainable growth in the near future, with support from a favourable corporate tax regime in the U.S.

Uni-Select's stock price is likely to recover, but it would be encouraging to see profitability improvements in the company's second-quarter results due on August 10.

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3. TSXV:LFST (Namaste Technologies)

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