Now Trading Below Its Original IPO Price, Is Roots (TSX:ROOT) Stock a Bargain?

Description

Followings its initial public offering (IPO), shares in iconic Canadian apparel company **Roots Corp** (TSX:ROOT) took off, gaining close to 20% over the next six months.

However, after a couple of quarterly earnings reports that have left investors wanting more, Roots shares have given back most, if not all of those gains and can now be had for less than what they came to market at last October when the company released its IPO at just north of $10 per unit.

IPO's can be notoriously difficult for the average investor to gain access to, so when a newly issued stock becomes available at the same price (or less) than was previously held exclusively for advantaged investors, it's usually worth revisiting the idea to see if there's still good value to be had.

In the case of Roots, it appears that the recent pullback has created an attractive opportunity to pick up an iconic Canadian brand offering a solid growth profile at a sizeable discount.

Despite the market's reaction to is first- and second-quarter results, the company continues to grow, including 3.6% sales growth in the second quarter driven largely by 3.5% growth in its online, or D2C ("direct to consumer") business.

While those numbers came in a little behind first-quarter sales growth of 5.8% and first quarter comparable same-store sales growth of 6.4%, there's still plenty of reason to like its stock, which currently trades at less than 10 times analyst consensus for 2019 earnings.

In addition to a strong presence in the Canadian market, it also has 112 stores in Taiwan, 27 in China as well as a handful of locations in the United States, including two new corporate retail stores opened in the second quarter.

Meanwhile, its aforementioned direct-to-consumer, or e-commerce channel gives good reason for optimism, outpacing growth that the company has been seeing in its traditional brick-and-mortar locations.

The fact that growth at the company's direct-to-consumer platform is outpacing growth of its more established physical footprint is without question an encouraging sign in light of evolving consumer spending patterns and the emerging preference to shop for apparel online versus in-store.

Hoping to build on its recent success, Roots is planning to move its retail store distribution and third-party e-commerce fulfillment into a new, larger and more technologically enhanced facility by sometime in mid-2019.

The company expects that the project will cost approximately $16 million in capital expenditures, which will act as a drag on the company's cash flows in the meantime, but once the new facility is up and running, it expects cost savings by as much as 20% or more annually by 2020.

But that's not even the best part

In announcing its recent quarterly results, Roots management also reaffirmed the company's guidance of sales of between $410 million to $450 million and adjusted net income of between $35 and $40 million in fiscal 2019, or approximately between $0.83 and $0.95 per share.

If management can execute those goals — despite the fears that some hold with regard to the outlook to the Canadian economy — the company's stock trading at its 52-week low and below its initial public offering price appears to be as good a bargain as any in today's Canadian market.

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