Caution: Revenue Growth Slowing Across the Board at Canadian Retailers

Description

Revenue growth at Canadian retailers continues to slow. And while the numbers are not that bad, as they are mostly at least still reflecting some positive growth, they have come down significantly.

This comes after a period where retail stock expectations and valuations had gone up significantly.

Let’s look at two Canadian retail growth stocks that are coming off of very strong growth in the last few years, settling in lower.

What does the future hold for these companies and their shareholders?

Spin Master (TSX:TOY)

Spin Master stock rose from humble beginnings to a company that now has 28 global offices and sales in over 60 countries.

With a strong and innovative history that has benefited from a collaborative model that provides access to a global network of inventors, Spin Master has produced some of the most popular toys in recent years, such as two of my daughter’s favourites, Hatchimals and Kinetic Sands.

From 2014 to 2017, gross product sales increased at a compound annual growth rate (CAGR) of 27%, and adjusted net income increased at a CAGR of 38%.

All the while, the company generated strong free cash flows and maintained little debt.

Those are stellar results, that’s for sure.

But recent results show a slowing, with a revenue-growth rate of 2.9%, down from double-digit sales growth numbers that even surpassed 20% in the last couple of years. This is concerning.

Another concerning fact is that the company's business is largely dependent on it successfully coming up with the next new toy that consumers will want, which can be based on consumer fads that come and go.

Given this fact, the company has been working hard to prolong the shelf life of its toys through marketing, broadcast relationships, and the development of global entertainment properties.

Spin Master has done an incredible job both strategically and financially, and its multiple of 25 times this year's expected earnings reflects this fact.

Although the stock faces headwinds, with a strong balance sheet and strong cash flows, this company is set up to continue along a healthy growth trajectory.

Indigo Books and Music (TSX:IDG)

Indigo offers a more diversified business than many Canadian retailers, and, as such, I am more positive on Indigo stock.

The CEO has said that the goal is to position Indigo as the department store of the future, and given the shake-up in the Canadian retail industry, we can see that there is demand for something different.

With newly renovated stores continuing to deliver strong same-store sales growth and online growth, the company is capturing market share at a feverish pace.

The retailer's U.S. expansion is moving forward, with the first U.S. store open in New Jersey.

This presents a big risk but also big potential return, and given that the company is moving slowly with this expansion, the hope is that the risk will be minimized.

Recent results show a decline in revenue as a result of store closings and renovations. Excluding this, sales increased marginally this quarter.

We are also seeing a hit to the company's profitability due to the growth phase it is in, but, in my view, this is short-term pain for long-term gain.

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Author
karenjennifer