Avoid 1 Famous Canadian Retail Stock in Favour of a Dividend-Paying Competitor

Description

If you were to go for a specialty retail stock, which one would you go for? It's a question that faces most investors when trawling through the TSX index for attractively valued retail tickers. Once the usual suspects of multiline retailers, discount stores, and expansion-hungry grocery giants has been exhausted, investors looking to diversify in the brick-and-mortar retail space have few options.

Below you will find two of the most obvious frontrunners, with a side-by-side comparison of their vital stats. Let's go shopping for retail stocks and see which one belongs in your shopping cart and which should be left on the shelf.

Roots (TSX:ROOT)

A one-year past earnings contraction by 0.5% underperforms the industry average of 5.6% over the course of the same period, getting Roots off to a bad start already. While comparative debt of 68.4% of net worth isn't the highest on the TSX index, it's a little high for a retailer: two strikes so far. However, value-wise, a P/E of 9.4 times earnings and P/B of 0.7 times book show attractive valuation. However, the big no-no here is a lack of dividends.

Roots is so-so on quality: a low past-year ROE of 7% and matching EPS of $0.33 are somewhat mitigated by a 13.1% expected annual growth in earnings. Meanwhile, momentum is indicated by a 1.92% gain in the last five days, near-market level beta of 0.93, and a 45% discount off the projected cash flow value.

Sleep Country Canada Holdings (TSX:ZZZ)

One of the sturdiest retail stocks TSX index in terms of overall health, Sleep Country Canada Holdings is a better by than Roots at the moment. In terms of track record, a one-year past earnings growth of 9.8% beats that 5.6% average mentioned above, while an honourable mention has to go to a five-year average past earnings growth of 60.7%.

Valuation is indicated by a fairly normal P/E of 11.6 times earnings, while a PEG of 1.2 times growth is fine and dandy. Though a P/B ratio of 2.4 times book is a bit of a no-no, Sleep Country Canada Holdings pays a solid dividend yield of 3.89% and has lower debt than its competitor at 35.6% of net worth.

In terms of quality indicators, a ROE of 21% is very encouraging, while an acceptable but not outstanding EPS of $1.96 is balanced with a 9.5% expected annual growth in earnings. These might not be the highest figures on the TSX index, but that ROE is good, and the rest of the stats for this ticker show general good health.

While neither stock is what you might call high momentum, Sleep Country Canada Holdings beats its competitor here as well: while there's less price oscillation (down 1.61% over the last five days), its beta of 0.96 comparative to Canadian specialty retail indicates closer to market-level volatility, while its share price is discounted by over 50% of its future cash flow value.

The bottom line

Anyone buying shares in a specialty retailer should look at the three main factors that go into even a cursory scan of a ticker's stats: value, quality, and momentum. When calculating value, it's a good idea to also look at dividends and what kind of yield you'll be locking in. In short, TSX index Sleep Country Canada Holdings is the strongest choice out of the two specialty retailers listed above, with better stats in almost all categories.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:ROOT (Roots Corporation)
2. TSX:ZZZ (Sleep Country Canada)

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