Attention Investors: Are These Canadian Retail Stocks Doomed?

Description

With the stock market turning decidedly bearish in the last few months and the consumer being placed in a precarious position with rising interest rates, are Canadian retailers doomed?

Although it is certainly a more difficult environment, it depends.

Aritzia (TSX:ATZ)

Aritzia stock is 3.4% higher than its 2016 IPO price of $16 and 30% higher versus last year as the stock continues its volatile ride.

The company achieved same-store sales growth of 12.9% in the latest quarter, the third quarter of fiscal 2019, with a 16.1% increase in net income, as the retailer opened two new stores and continued to post strong e-commerce growth.

Results continue to look good, but apparel retailers are notoriously risky and vulnerable to shifts in the latest fads and competition, and although the company continues to handily beat expectations, it is not one I would buy right now.

The macro environment makes me leery of premium, luxury retailers.

Roots (TSX:ROOT)

Notwithstanding the fact that Roots stock rallied 20% on Wednesday, it has seen better days.

In another story that has seen overly optimistic earnings estimates come down dramatically, Roots stock has been hit hard, trading well below its IPO price of $12 — more than 67% lower, in fact.

Challenges remain, and with second-quarter and now third-quarter results that have come in below expectations, the future is unclear.

Same-store sales growth of 1.1% in the second quarter and negative 3.4% in the third quarter clearly shows us that this story has not played out as the investment analysts had forecasted at the time of the IPO.

And with slowing consumer spending, the company will have added difficulties with its expansion to the U.S., which has proven to be a very risky move even in the best of times.

The valuation on Roots stock is looking more attractive, but with estimates calling for 2021 EPS to be flat with 2018, we need to see growth coming back.

Sleep Country Canada Holdings (TSX:ZZZ)

Sleep Country's stock price has seen many highs and lows in the last two years, peaking at over $40 in the summer of 2017 and sinking more than 50% to lows of just over $20 last month.

Here is why Sleep Country stock is not doomed:

– Strong balance sheet
– Opportunistic acquisition
– Competitive advantage

Sleep Country financed the $88.7 million Endy acquisition with debt, and the balance sheet remains strong, even after this acquisition, with a net-debt-to-EBITDA ratio of 1.5 times. Endy, a fast-growing online mattress and bedding retailer, will increase Sleep Country's margins and be accretive to earnings.

Market share gains continue to drive Sleep Country's leading position in its niche market — a market that is underserved in many parts of Canada as a result of Sears Canada's demise, and a market that remains highly fragmented.

Key to the thesis is this simple fact: with Sears's demise, what was once Sleep Country's biggest competitor is now gone, and Sleep Country has scale and positioning to capture a big portion of these sales that are up for grabs.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ATZ (Aritzia Inc.)
2. TSX:ROOT (Roots Corporation)
3. TSX:ZZZ (Sleep Country Canada)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/24
Date Created
2019/01/11
Author
karenjennifer