



Power Rankings: Top 5 Canadian Retail Stocks to Buy for the Long Run

Description

As you may know, we're all about long-term investing here at the Motley Fool, and while many lists rank stocks based on year-ahead upside potential, I'd like to take the opportunity to judge some stocks based on a longer-term time horizon. For today's top five list, we're looking at the best Canadian retailers to buy and hold for the next three years.

So, without further ado, here are your top five retailers ranked from worst to best.

Indigo Books and Music ([TSX:IDG](#))

The brick-and-mortar bookstore is still alive and well in spite of the tremendous pressure it's been under over the past two decades. Physical books are sold online, e-books have taken off, and you're now able to borrow e-books from your local library from the comfort of your living room.

Given all the headwinds, it's a miracle that Indigo, a bookstore, is not only not bankrupt, but slated to undergo an ambitious expansion into the U.S. market.

You see, Indigo isn't just a bookstore anymore. It's a gift shop, and management knows how to drive customers into its stores.

The stock trades at 0.3 times sales and 0.8 times book value, which is far too cheap given how resilient the company has been as its digital counterparts rose to glory. Although the top line has been slow to grow, it's noteworthy that top-line growth has crept up from the low single digits to the mid single digits over the last decade.

Roots ([TSX:ROOT](#))

Despite the company's deep roots in Canada, comps have struggled to take off. At this juncture, it looks like the U.S. expansion plan is going to be on hold for a while, as management needs to fix its issues out at home before it can even think about rolling out in a new market where the brand is

virtually unknown.

Now Roots may seem like a complete dud after shares lost nearly 80% of their value from peak to trough, but I do think there's hope now that management has set its bar low. Although I'm not a huge fan of management after overpromising prior around its IPO and underdelivering less than a year out, I think there's tremendous value to be had after the latest sell-off.

Roots is a great brand; management just needs to leverage it properly to create products that millennials actually want. If it can innovate and leverage technologies to its advantage, there's no question that Roots can rebound. The big question is whether or not management has what it takes to bring Roots to the next level.

Aritzia ([TSX:ATZ](#))

Aritzia is an example of a dud that's [transformed into something special](#). The company is in the business of women's clothing which is incredibly vulnerable to fashion risk.

What's in today is out tomorrow, and although it seems impossible to forecast what will be hot in the next quarter, I believe management has found a solution to its high degree of sales unpredictably with its recent celeb-endorsed campaigns.

Since Aritzia already commands high margins on its clothing, what's "out" will still make a good buck for the company on the discount rack. Black Friday and Boxing Day were prime opportunities for Aritzia to unload its excess inventory, and with new products in the pipeline leveraging influential celebrities like Kendall Jenner, I think the high degree of fashion risk has been mitigated such that Aritzia may actually be a rewarding core holding for young growth-oriented investors.

Canadian Tire ([TSX:CTC.A](#))

Here's a Canadian icon that's made significant strides in 2018, but investors don't seem to care, so the stock has still fallen to "unsustainably undervalued" levels.

Management has spent money on long-term value driving initiatives. The Triangle loyalty program, new accounting processes, brand M&A, exclusive partnerships with other retailers, among other efforts, have served to widen Canadian Tire's already impressive moat.

None of this is enticing to investors who appear more short-term oriented, however.

Through a combination of dividend hikes and negative stock moves, the stock is now an attractive dividend play with its 2.9% dividend yield. In time, I believe Canadian Tire will win back the respect of investors, but in the meantime, accept the company's bribe and lock in that swollen dividend yield before it disappears as the stock corrects to the upside!

Canada Goose Holdings ([TSX:GOOS](#))([NYSE:GOOS](#))

The goose is operating at a [very high level](#). Margins are trending higher, several untapped markets

(China) could sustain high double-digit earnings growth numbers for years to come, celeb endorsements and product recommendations through word of mouth have allowed the company to keep a lid on marketing expenses, and CEO Dani Reiss can't seem to do anything wrong.

With a robust e-commerce platform and a brick-and-mortar store roll-out plan in place, I suspect the Canada Goose growth story is just getting started.

Over the next three years, the goose will fly much higher given the catalysts, the growth potential, and the impeccable stewardship of Reiss and company.

The stock is the most expensive on this list, but you're paying up for explosive growth that could swell your portfolio over the long term.

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:ATZ (Aritzia Inc.)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)
4. TSX:GOOS (Canada Goose)
5. TSX:IDG (Indigo Books & Music)
6. TSX:ROOT (Roots Corporation)

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