4 of the Best Canadian Retail Stocks on the TSX Index to Avoid Buyer's Remorse

Description

With the sales season petering out, it seems a good time to comb through the data for domestic retail stocks. Specialty retail is entering an interesting phase on the TSX index right now, with some high-quality stocks now trading with attractive multiples. However, this has to be weighed against a range of downsides: from high debt levels to negative earnings forecasts, Canadian retail is a mixed (shopping) bag at the moment.

Roots (TSX:ROOT)

The share price for this iconic Canadian retailer has been in decline since last May; this is mirrored by a stagnant one-year past earnings decline of -0.5%, which underperforms even the lacklustre specialty retail average of 5.6%. However, Roots is looking at a 13.1% expected annual growth in earnings, and has some low multiples to go with that positive outlook, such as a P/E of 11.1 and P/B of 0.8.

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS)

What a year this stock's had: a one-year past earnings growth of 151.5% smashes the industry average as well as its own already impressive five-year average of 54.1%. However, with high debt and high multiples to match, investors looking for upside need to weigh the risk of buying Canada Goose Holdings stock.

Sure, a 35.9% expected annual growth in earnings is tempting, but the risk-averse should eye a debt level of 93.7% of net worth, P/E of 70.4, and P/B of 26 with caution. Meanwhile, large volumes of shares changed hands through inside selling over the last nine months, which should be of interest to investors who keep an eye on insider sentiment.

Sleep Country Canada Holdings (TSX:ZZZ)

A P/E of 12.6 shows good value for this stalwart Canadian retail stock; however, that P/B of 2.6 is a little too high. That said, a comparative debt level of 35.6% shows a nice and healthy stock, and with a dividend yield of 3.58%, there's good enough reason to buy for a TFSA or RRSP.

In terms of profitability, Sleep Country Canada Holdings is looking at a 9.5% expected annual growth in earnings, which were 9.8% for the past year, and 60.7% over the last five years, making this one of the best track records for a retail stock on the TSX index. Intrinsic value investors should also note that its share price is discounted by more than 50% compared to its future cash flow value.

Leon's Furniture (TSX:LNF)

Closer to the industry average, Leon's Furniture saw a one-year past earnings growth of 8.1%, which is more or less in line with a five-year average of 10.9%. Its debt level is acceptable at 27.2% of net worth, while the valuation is attractive: see a P/E of 10.6 and P/B of 1.4. A dividend yield of 3.76% gives passive-income investors reason to buy and hold, though a 0.4% expected annual growth in earnings is not significantly high.

The bottom line

With a debt level of 68.4% of net worth and no dividends, investors may have to weigh up whether Roots is worth the punt. Folks looking for dividends from a top TSX index retail stock may want to look to the furniture stores instead, while growth investors still have a decent pick with Canada Goose Holdings.

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2. TSX:GOOS (Canada Goose)
3. TSX:LNF (Leon's Furniture Limited)
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