Can E-Commerce Growth Propel These 2 Stocks This Year?

Description

In a recent report, Statistics Canada said that retail sales fell 0.9% to $50.4 billion in November 2018. This drop came in below expectations. Declining sales at gasoline stations and motor vehicle and parts dealers were behind the loss in momentum. Without these two sub-sectors, retail sales were up 0.2%. However, economists had hoped for a better performance in these other sectors in the thick of the holiday shopping sales season.

Fortunately, continued growth in e-commerce activity was a bright spot. Online sales reported a 20% year-over-year increase. E-commerce now accounts for 4.2% of all retail trade in Canada.

In late 2017, I'd discussed stocks that would receive a bump due to the growth of e-commerce into the next decade. Today, I want to review two stocks that have embraced e-commerce and have achieved solid growth because of it. Which stock is worth adding right now?

Aritzia (TSX:ATZ)

Aritzia is a Vancouver-based integrated design house of exclusive fashion brands. Shares of Aritzia have dropped 12.5% over the past three months as of close on January 24. In July 2018, I'd recommended Aritzia as my top clothing stock for the year. The stock would rise to all-time highs in late 2018 before succumbing to broader market weakness.

The company released its fiscal 2019 third-quarter results on January 9. Net revenue climbed 18.8% year over year to $242.9 million, and adjusted net income rose 17.4% to $35.9 million. Aritzia saw a boon from growth in its e-commerce business due to what the company credited as an increased focus on search engine and core site optimizations.

Currently, Aritzia stock boasts an RSI of 50 as of close on January 24, putting it in neutral territory. Aritzia stock comes at a solid price compared to many of its peers on what now looks like a pricey TSX index.

Indigo Books & Music (TSX:IDG)

Indigo is a Toronto-based book, gift, and toy retailer. Shares had dropped 7.5% in 2019 as of close on January 24. The stock had plunged 23% over a three-month span.

In the second quarter of fiscal 2019, Indigo reported a decline in year-over-year revenues. This was largely due to the closure of several low-performing stores in addition to renovations that stalled operations at 12 stores in the quarter. Indigo has poured more resources into upgrading its online offerings. E-commerce traffic experienced a healthy increase in the second quarter.

It was not long ago that big-box book stores like Chapters/Indigo were the disruptors in an old industry. **Amazon.com** made its start as an online book retailer but has grown into one of the most influential companies in the world on the back of its e-commerce model. The library offered by Amazon has pushed brick-and-mortar book retailers into a difficult spot, and stores like Indigo are being forced to adapt.

Poor sales in November are ominous for investors hoping for Indigo to receive a bump ahead of its third-quarter report. Indigo stock last boasted an RSI of 36 as of close on January 24, which is still off oversold territory. Shares were trading pennies from 52-week lows as of this writing. The stock is an attractive speculative add for value investors, but traditional book, gift, and toy retailers like Indigo are facing big challenges looking ahead to the next decade.

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2. TSX:IDG (Indigo Books & Music)

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