This Trio of Unlikely Stock Picks Will Make You Money

Description

In mid-January, Motley Fool Canada asked its contributors to name one company that would be a top stock in 2019. Stocks that got the nod included **Restaurant Brands International**, **Canada Goose**, **Alimentation Couche-Tard**, and **Shopify**.

Those are all natural candidates with strong business models and growing revenues and earnings. Justifying their inclusion is easy.

But what about stocks that aren't so easy to recommend? The ugly ducklings of the TSX, if you will. How does one justify their purchase? The answer is, with great care.

The trio of retail stocks I'm recommending has an average total return of 1% year to date through February 6, more than 7% percentage points worse than the TSX. The year is barely five weeks in, and they're already falling behind.

Not to worry. I have a reason why each of this trio of stocks, although unlikely choices, will make you money in 2019 and beyond.

Indigo Books & Music (TSX:IDG)

Fool contributor Ambrose O'Callaghan noted February 5 that Indigo's Relative Strength Index (RSI) before its Q3 2019 report was 43, barely above oversold status.

The company delivered poor results shortly after O'Callaghan's article was published, sending its stock even lower, although not nearly as much as one might expect from earnings that dropped by half in the quarter from $1.56 a share a year ago to $0.79. Analysts were expecting $1.33 a share.

As CEO Heather Reisman explained during its conference call, Indigo was hit with a "triple whammy" in the third quarter, its busiest of the year. Unfortunately, the postal strike that began on October 23 turned double-digit gains in October into double-digit declines in November and December.

It's going to take months for the company to get back to business as usual. That said, Reisman is happy with the results from its first U.S. store, giving shareholders something to look forward to as

Indigo climbs out of the hole Canada Post put it in.

Indigo's stock has lost 41% of its value over the past 52 weeks. It's unlikely that it will face a similar triple whammy in Q3 2020. As TSX stocks go, it's a big value play.

Metro (TSX:MRU)

Of this trio of stock recommendations, Metro is the second-best performer, up 2.9% year to date, including dividends, but well off the index. Fortunately, for shareholders, the grocery store chain delivered strong results in 2018. I can see it turning on the burners in the spring and summer as more people get out and about.

On January 29, the Quebec-based food retailer reported solid first-quarter results, despite the fact that higher wages, supplier costs, and an E.coli outbreak stemming from bad romaine lettuce put it under severe financial constraints.

Its same-store food sales increased 3.2% during the quarter, while pharmacy same-store sales increased 1.5%. Overall revenue during the quarter was $3.98 billion, 3.5% higher than a year earlier, excluding Jean Coutu. On the bottom line, its adjusted net earnings increased 35.9% in the first quarter to $172.2 million.

With the pharmacy chain as part of the company, Metro is a much stronger business.

Hudson's Bay (TSX:HBC)

Of all three stocks, the department store has performed the best in 2019, up 8.6%. Of course, when your stock loses 35% of its value in the 2018 calendar year, a reversion-to-the-mean bounceback isn't unusual.

Two things give me hope.

CEO Helena Foulkes continues to rework the entire organization to make it more agile and customer friendly. As a result, she's got analysts paying attention to the company, and that's half the battle.

"They have a pulse now. You see significant movement and action on her part and that gives investors some confidence," said Bruce Winder, partner at Retail Advisors Network in December. "It's going in the right direction, but boy, oh boy, is there still a lot of work to be done here. By no means are they out of the woods yet."

And here's the second thing that gives me hope.

Executive Chairman Richard Baker ,through a company he controls, acquired an additional 10% of HBC's stock in early January from the Ontario Teachers' Pension Plan Board for $9.45 a share, 19% higher than where it's currently trading.

Baker is not the Eddie Lampert of Canada. His doubling down says a lot about his confidence in Foulkes' ability to get the job done. I couldn't agree more.

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2. TSX:MRU (Metro Inc.)

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