Should Investors Bet on These 2 Retail Stocks That Are Screaming Value?

Description

The new retail environment is one in which traditional, “bricks and mortar” retailers do not survive.

Retailers with strong online shopping capabilities are blowing them out of the water. And rightly so, as consumers’ shopping preferences have seen a huge shift toward convenience, speed, and selection, all things that are uniquely offered in the online shopping experience.

Will these changes be enough, and are they happening fast enough to combat the likes of Amazon?

Let’s look at two retailers that are trading at extremely attractive valuations as a result of this tumultuous environment.

Sleep Country Canada Holdings Inc. (TSX:ZZZ) stock price has seen many highs and lows in the last two or three years, peaking at over $40 in the summer of 2017 and sinking more than 50% to lows of just under $20 in December 2018.

The retailer has been hit by competition from online mattress retailers, which have driven down prices and brought added convenience to consumers.

For its part, Sleep Country has responded by acquiring Canadian mattress-in-a-box online retailer, Endy, a fast-growing online mattress and bedding retailer that has been rapidly growing.

2017 sales at Endy doubled and are expected to more than double in 2018.

Being an online retailer with no physical locations, Endy does not have any of the expenses that come with this, meaning that we can expect it to generate higher margins than Sleep Country’s business over the long term.

But will this be enough?

I’m optimistic about Sleep Country’s response to this online threat.

Also, I think that shopping for a mattress is one thing where there is value in going to a store to actually test out the different mattresses before making a decision, so there will always be a place for physical stores.

Indigo Books and Music Inc. (TSX:IDG)

Even more so than Sleep Country, Indigo's business is one that lends itself well to the online platform.

It offers a more diversified business than many Canadian retailers, and while the stock is down almost 50% in the last year and sales growth is slowing, the stock is now trading at 0.7 times book value and the long-term outlook is good if the company can maintain the strength in its online business.

The goal is to position Indigo as the department store of the future, with a focus on the in-store experience to drive shoppers into the store and drive a strong online presence.

Given the shake-up in the Canadian retail industry, we can see that there is demand for something different.

With newly renovated stores continuing to deliver strong same-store sales growth, and continued strong online growth, the company is capturing market share. This, coupled with a strong balance sheet, will likely ensure success for the company.

Final thoughts

In summary, in this slowing retail environment, companies with strong online presences will win the day.

Some businesses lend themselves better to the online platform. Those retailers that strike this balance well will survive and thrive in the long term.

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Author
karenjennifer