Should Canadian Investors Bulk Up on Retail Stocks?

Description

After a fairly brutal holiday period, are retail stocks about to make a comeback, or are investors going to be ditching their shares? While retail sales were pretty weak coming out of 2018, the following quartet of retail stocks represent the best places to stay invested. Let's take a look at the data for four of the best Canadian retail stocks on the TSX index.

Canadian Tire (TSX:CTC.A)

One of the most obvious retail stocks on the TSX index, Canadian Tire represents one of the domestic chains best positioned to cope with a recession. The past three months have seen more shares in Canadian Tire being bought than sold by insiders, and with a moderate dividend yield of 2.82% matched with a 7.9% expected annual growth in earnings, there are at least two reasons to get invested.

In terms of track record, Canadian Tire has managed to keep its head above water, with a marginal one-year past earnings growth of 1% and 5.7% five-year average. Valuation is indicated by a P/E of 13.5 times earnings and slightly overweight P/B ratio of 2.2 times book.

Hudson's Bay (TSX:HBC)

First of all, let's look at what's bad about this well-known TSX index retail stock. Down 3.79% in the last five days, it seems the market is bearish on this retail stock at present. Its one-year past earnings shrank by 39.6%, leading to a five-year average loss of 53.2%. It's got a high level of debt up at 248% of net worth, counting it out for any low-risk investors.

So, what's good about Hudson's Bay? Discounted by 22% off the future cash flow value, Hudson's Bay is trading near its book price with a P/B of 1.1 — still below the TSX index average. It pays a dividend yield, though a low one, of 0.64%, though its earnings are expected to contract by 7% over the next one to three years.

Sleep Country Canada Holdings (TSX:ZZZ)

A one-year past earnings growth of 9.8% may be in line with Canadian retail, but that impressive five-year average of 60.7% puts most competitors to shame. More inside buying than selling of shares in Sleep Country Canada Holdings has occurred in the last three months, and its stock is up 2.17 during the course of the last five days.

There is very little to fault about this stock. Its debt level of 35.6% of net worth is indicative of a healthy balance sheet, while a tasty dividend yield of 3.7% is backed up with a 9.5% expected annual growth in earnings. Meanwhile, a decent valuation is shown by a P/E ratio of 12.2 times earnings.

Leon's Furniture (TSX:LNF)

This popular furniture retailer had a one-year past earnings growth rate of 8.1%, which is more or less in line with the industry, with a similar picture painted by its five-year average growth of 10.9%. Like Sleep Country Canada Holdings, it has a healthy balance sheet, with an acceptable 27.2% of debt.

A fair volume of shares in Leon's Furniture changed hands through inside buying in the last few months, meaning that investors who like to go by insider confidence have a hot stock in Leon's Furniture, while a dividend yield of 3.81% and below-market valuation (signaled by a P/E of 10.4 times earnings and P/B of 1.4 times book) add to the reasons to buy this stock.

The bottom line

Both Canadian Tire and Hudson's Bay carry fairly high levels of debt, which may put off the casual investor with a low appetite for risk. While both represent attractive multi-line retail plays, retail stocks on the TSX index may be better represented by Sleep Country Canada Holding and Leon's Furniture, with their mix of healthy balance sheets, decent valuations, and tasty dividends, though they may be less immune to a widespread economic downturn due to their narrower market focus.

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1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:LNF (Leon's Furniture Limited)
3. TSX:ZZZ (Sleep Country Canada)

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