Should Canadian Investors Avoid Consumer Cyclical Stocks in 2019?

Description

With retail facing a potentially tough year, and having suffered a challenging holiday period, does it make sense to buy and hold retail and other consumer cyclical stocks through 2019? From auto stocks to multi-line retailers, let's take a deep dive into some of the available data and see whether there are any strong buys or obvious traps on the TSX index in this financial landscape.

AutoCanada (TSX:ACQ)

Trading at a discount of 22% off the future cash flow value, this franchised automobile company with dealerships across Canada is one of the most recognisable auto stocks on the TSX index. Up 7.81% in the last five days, investors are finding something to like about AutoCanada.

A stock that began a prolonged descent last April, eventually shedding half its value (the trend has been hovering around the $12 zone for six months now), AutoCanada earnings growth rate fell by 165.8% in the last 12 months, compounding an overall negative five-year average of -22.7%.

Uni-Select (TSX:UNS)

Down 30.83% in the last five days, another TSX index auto-related stock is looking like a potential value buy. Indeed, with a P/E of 11.7 times earnings and P/B of 0.8 times book, Uni-Select is generally sound, though its expected 4.2% annual growth in earnings is lower than AutoCanada's.

Uni-Select's one-year past earnings growth rate dropped by 18.2%, though it grew by about the same amount over the last five years. Meanwhile, a dividend yield of 2.77% is on offer to investors bullish on the auto trade.

Hudson's Bay (TSX:HBC)

Moving over to one of the top TSX index multi-line retail stocks, Hudson's Bay's negative one- and five-year past earnings growth rates compounded with an expected drop of 6.3% in annual earnings make for a red flag.

However, we're about to take a look at another North American retail stock that casts Hudson's Bay stats in a good light. Additionally, trading at a discount of 19% compared to the future cash flow value, Hudson's Bay is good value, confirmed by a P/B of 1.1 times book. It pays a small dividend yield of 0.62% to mid-to-long-term capital gains investors willing to sweat it out.

Home Depot (NYSE:HD)

With a heady brew of high-powered stats not often seen on the TSX index, NYSE-listed Home Depot is a potentially risky investment. Before investors get overly excited about an high return on equity last year, a high debt level remains a concern; meanwhile, it's down 2.1% in the last five days, and Home Depot insiders have only sold shares in the last three months.

While a one-year past earnings growth of 22.8% represents an improvement on a five-year average of 12.5%, Home Depot is overvalued with a P/E of 20.5 times earnings and high P/B of 161.3 times book, leaving a so-so dividend yield of 2.19% and low 5.2% expected annual growth in earnings.

The bottom line

Investors need to weigh risk with income when buying cyclical stocks in this economic climate. There are a few things going for AutoCanada that make for an intriguing buy, however: A P/B ratio of 0.8 times book signifies decent value, while a dividend yield of 3.08% is matched with a significant 110.5% expected annual growth in earnings. Meanwhile, before Hudson's Bay fence-sitters give up on the retail ticker, context provided by the likes of Home Depot should be taken into consideration.

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1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:HD (The Home Depot Inc.)
2. TSX:ACQ (AutoCanada Inc.)
3. TSX:UNS (Uni-Select)

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