Are These Retail Stocks a No-Go Area for New Investors?

Description

New investors are no doubt eyeing the retail industry with some suspicion at the moment, after a hard holiday season that left confidence shaken. Below are three stocks representing North American retail, with a focus on the TSX index but with a sideways glance at the NASDAQ. From online shopping to brick and mortar browsing, here's what would-be investors need to know.

Canadian Tire (TSX:CTC.A)

Kicking off the breakdown of the retail scene, we have our very own star of the multiline retail industry. However, the company's 2018 wasn't as stellar as it could have been, with Canadian Tire underperforming the industry and the market over the past year. Down 9.29% in the last five days at the time of writing, it's up to a five-year average past earnings growth of 5.1% to carry the track record, and it's not overwhelmingly positive.

Carrying debt of 136.7% of net worth, Canadian Tire's balance sheet leaves something to be desired, and may count out a long-term investor with little appetite for risk. However, there is some indication of decent valuation, with a 45% discount off the future cash flow value and a P/E of 13.8 times earnings, and a dividend yield of 2.81% dovetails nicely with an 8.2% expected annual growth in earnings.

Leon's Furniture (TSX:LNF)

Moving on to another popular retail stock on the TSX index, Leon's Furniture is likewise trading with low multiples, from a P/E ratio of 10.2 times earnings to a P/B of 1.3 times book, and at a 48% discount. Down 1.47% in the last five days, this stock is a bargain.

It beats Canadian Tire on track record and balance sheet stats, too, with a one-year past earnings growth of 14.9% and five-year average growth of 10.8% matched with an acceptable level of debt at 23.6% of net worth; its dividend yield is higher, too, at 3.8%. One of the best all-rounder retail stocks to invest in, Leon's Furniture offers a good mix of stats.

Amazon.com (NASDAQ:AMZN)

Moving online and south of the border, we come to this ubiquitous ticker. Down 0.85% in the last five days, Amazon.com's one-year past earnings growth of 232.1% is impressive and improves on an already positive five-year average growth of 67.8%. Sounds good so far, though while its debt level of 113.2% of net worth is adequately covered by operating cash flow, that level is up almost 100% in five years.

Quality investors have no doubt already taken note of a decent 26.6% expected ROE for the next three years, following on from a healthy past-year ROE of 23%, and with a 26.6% expected annual growth in earnings on the way, it's got growth investors covered, too.

However, with a high P/E of 78.6 times earnings and matching P/B of 18.3 times book, this stock is clearly overvalued. There are options on the TSX for online shopping fans who want to buy Canadian, so investors should do their homework here.

The bottom line

Though it comes with the potential for yet more upside, Amazon.com is indeed overvalued, and would-be investors should perhaps watch how the company's physical store strategy develops before taking a long-term position. Meanwhile, the two physical retail stocks listed here operate in different sectors, and could potentially be held in tandem.

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TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:LNF (Leon's Furniture Limited)

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