



1 Unreasonably Battered Retail Stock to Buy — and 1 to Stay Away From

Description

It's no exaggeration to say that [retail stocks](#) have been utterly battered recently.

Growth rates are slowing for many of these retailers, the consumer appears tired, with record [debt levels](#) remaining a constant, and the housing market continues to be weak, with price declines and a reduction in housing starts reflecting this weakness.

All this to say that the consumer-driven economy is probably a thing of the past — not a good thing for retail stocks.

Without further delay, let's look at two retail stocks that have been battered in this environment.

Canadian Tire Corporation Ltd. ([TSX:CTC.A](#))

Canadian Tire stock price is seeing lows not seen since 2016, and this weakness is providing investors with a very attractive opportunity to buy for long-term gains.

Because the Canadian Tire of today is not the Canadian Tire of yesterday.

Canadian Tire offers a healthy and growing dividend of \$4.15 per share and a dividend yield of 3.08%, with one of the most recognizable brand names, a long history and \$14 billion in revenue. And Canadian Tire has an unrivalled position in the Canadian retail industry.

Through its diversified retail business, which is composed of not only the traditional Canadian Tire stores, but also FGL Sports, specialty automotive outlets, and work-related retail stores like Mark's, Canadian Tire stock has many levers to pull for growth.

In the latest quarter, same-store sales growth was a very healthy 7.1% for Canadian Tire stores, 4.9% for Mark's, and 3.4% for FGL Sports.

These are strong numbers that reflect the strength of the Canadian Tire as well as its related brands.

Canada Goose Holdings Ltd. ([TSX:GOOS](#))([NYSE:GOOS](#))

Canada Goose stock has been killed this year, losing approximately 20% in one day (the day of its latest quarterly report) and 38% in the last month or so.

But don't be tempted to jump in just yet. While it's tempting to think that there is tremendous value in the stock after this fall, let's think about it.

Yes, sales grew at an impressive 25% in the latest quarter, but what matters most is that the stock was pricing in more and is still trading at multiples of 27 times this year's earnings estimates and 22 times next year's earnings estimates. That's much better, but the company is seeing slowing growth rates. Fiscal 2020 is expected to see an EPS growth rate of 23% after a 60% plus growth rate in fiscal 2019, so the multiple reflects a fairly valued stock as opposed to an undervalued one.

Canada Goose is a luxury retailer offering little or no diversification, so is therefore at risk in a precarious consumer environment.

Final thoughts

Retail stocks have enjoyed a very buoyant consumer in the last few years. With risks consumer risks, mounting, we would all be well advised to be more defensive, sticking to the more diversified, lower valued retailers that offer basic everyday products.

CATEGORY

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2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:GOOS (Canada Goose)

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