
# Indigo Stock: Should You Buy the Post-Earnings Dip?

## Description

In the spring of 2018, I'd discussed the so-called "retail apocalypse" and the apparent demise of Toys "R" Us. Early this year, the company managed to re-emerge from bankruptcy as "Tru Kids." This rebrand will see the opening of new, smaller stores and a focus on e-commerce sales.

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Today I want to look at a Canadian retailer wrestling with its own challenges in the sector. The execution of its strategy over the coming quarters will determine whether it will be able to avoid the fate of Toys "R" Us and other victims of the retail bloodbath.

**Indigo** (TSX:IDG) is Canada's largest book, gift, and specialty toy retailer. Shares plunged 14.8% on August 14 as investors reacted to yet another disappointing earnings release.

Indigo has faced challenges due to the changing retail landscape, especially in the latter half of this decade. The emergence of **Amazon.com** has done to big-box book retailers what they had done to mom-and-pop book and gift stores in the late twentieth and early twenty-first century.

The company released its first quarter fiscal 2020 earnings after markets closed on August 13. Revenue fell to $192.6 million compared to $205.4 million in the prior year primarily due to the strategic shift the company has undergone in order to improve profitability down the road.

Indigo posted margin rate improvements of 0.8% in Q1 FY2020, but the company will have to take lower sales on the chin in the near term.

Indigo reported a net loss of $19.1 million or $0.69 per share compared to a net loss of $15.4 million or $0.57 per share in Q1 FY2019. As expected, restructuring costs and the sharp drop in sales contributed to the decline in profitability.

Comparable sales fell 7.6% year-over-year, which includes its e-commerce sales results. Indigo had reported a $40 million net loss for its 2019 full financial year.

The company plans to offer a more distinctive experience in order to differentiate itself from Amazon going forward. Products introduced by new Creative Office Nathan Williams will begin rolling out in roughly nine months.

CEO Heather Reisman acknowledged that Amazon had greatly impacted its bottom line in the highly competitive space.

There will be no new store openings in the 2020 fiscal year as Indigo works on other key areas. Indigo's New Jersey Mall store has reported disappointing foot traffic. Investors can expect a re-evaluation of its strategic vision for real estate. Indeed, the pause on global expansion is a concern, and FY2020 is shaping up to be a year of clenched teeth for Indigo.

## Is Indigo a buy-low opportunity?

Indigo stock has now dropped 40% in 2019 as of close on August 14. The stock has wiped out all its gains in this decade over the past two years. Shares had an RSI of 26 at the time of this writing, putting Indigo in technically oversold territory. However, it also had a price-to-earnings ratio of 30, which is not so favourable for potential buyers right now.

Broader headwinds present more risks for Indigo, however. An explosion of yield curve inversions in the developed world is setting off alarm bells over the prospect of a global recession.

This would be extremely damaging to an already fragile traditional retail sector, and investors should therefore steer clear of Indigo for the rest of 2019.

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