This 1 Stock Is Too Cheap to Ignore

Description

When it comes to books, **Indigo** (TSX:IDG) is unequivocally the retailer of choice. It's the parent company of Chapters and together forms the largest bricks and mortar book retailer in Canada.

The company has since expanded its offerings to include home furnishings and gifts to become the go-to destination for chic and trendy products. It was also one of the first major retailers to carry the S'well water bottle, which has been copied by companies around the world.

The CEO of Indigo, Heather Reisman, is married to business tycoon Gerald Schwartz. Schwartz is the CEO of **Onex**, which recently purchased WestJet for $5 billion in cash.

Indigo is a solid company due to the potential to be acquired and a high working capital

Acquisition potential

Although relying on an acquisition to increase the value of a stock isn't a good idea, there's no company better positioned for a takeover than Indigo.

Aside from the CEO of Indigo being married to the CEO of one of Canada's largest private equity firms, Indigo has proven that it's able to change with the times and survive during economic downturns.

One way that Indigo has changed with the times is its expansion beyond books. As mentioned above, Indigo sells gifts, home furnishings, candy, toys, and electronics.

This has allowed the company to embrace a department store approach to sales whereby consumers can shop for multiple items under one roof. This is attractive to investors, as it indicates the company is not afraid to alter its business model to capitalize on opportunities.

Another attractive aspect of Indigo is the fact that it was founded in 1996. This means it has survived both the early 2000 dot-come bubble and the 2008-2009 recession. Given that books are not a necessity, this is very impressive.

Indigo's counterpart in the United States, Barnes & Noble, was sold earlier this year to a hedge fund for $638 million, putting Indigo in a good position to be acquired as well.

High working capital

Working capital is the total assets of a company minus the total liabilities. Assets are used by a company to generate future revenues and ultimately future net income. A company with a high working capital has enough assets to cover its liabilities and then some.

This is beneficial, as the surplus of assets can be devoted to growing the business. Indigo has a working capital surplus of $370 million, which represents more than a third of its 2019 revenues. This is an important metric for investors, as this amount of money can be used to generate future profits.

Bottom line

Investors have been turned off by Indigo due to the assumption that the company is in a dying industry. I beg to differ.

In addition, the company has a working capital surplus, which means that it's able to devote the majority of its assets to growing the business, ultimately driving net income.

While Indigo is an underdog on the stock exchange, I wouldn't rule it out as a potential investment.

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