Time to Buy This Beaten-Down Canadian Retail Stock?

Description

Looking at the last few months, we've witnessed many Canadian retail stocks come crashing down due in some part to weakening consumer spending trends. While very upsetting for shareholders of these stocks, these crashes often provide investors with the opportunity to build positions at much better valuations.

Let's take **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS) as an example. Canada Goose stock has plunged 40% from its 2018 highs, as the company failed to meet expectations.

Growth has remained strong and the retailer is having good success in its global expansion and in its product diversification, but Mr. Market took it down anyway, as expectations baked into the stock were simply too high.

The other retail stock that I would like to look into here is **Indigo Books and Music Inc**. (TSX:IDG). Indigo stock is also down big from its 2018 highs — to the tune of 69%, to be exact.

Although the story here is quite different, we are nonetheless faced with the question of whether it's time to buy this beaten-down Canadian retail stock.

Indigo: a retailer with promise yet unrealized

Indigo's growth rates are nothing like Canada Goose's. But Indigo's valuation was never like Canada Goose's either. So in the end, in Indigo Books we have a retail stock that has faltered and a company that has also faltered.

Part of this was due the company's big capital expenditures into the business, but part of this is also a merchandising strategy that appears to have stalled.

What the company needs to do is to revamp their merchandise, offer new and exciting products again, and probably to expand their merchandise selection and categories. This is no small feat, and as a result, this will take the attention off of the U.S. expansion, as it should.

Recall that Indigo's business had a few great years recently, showing the potential of this company when they get things right. Book sales had stabilized, and its merchandise and online sales categories were growing at over 20%.

Indigo's merchandise selection grew tired, however, and so did shoppers. Spending at Indigo stores therefore took a hit.

The latest quarter looks bad

Revenue declined 6.2% in the latest quarter, driven by reduced promotional activity as the company works on strengthening margins. To this end, gross margin increased to 43.5% from 42.8%, so the intended effect was achieved. This is good news for building a higher margin business.

Once Indigo's strong point in its business, online sales declined 14.8% in the quarter. Again, this was due to a reduction in promotional activity, and with the online channel being more sensitive to price, it makes sense that it was affected even more.

Rock bottom valuation

Valuation is at rock bottom, at 0.2 times sales and 0.7 times book value. This stock is clearly not for everyone but we can't argue that the stock is looking cheap.

Debt levels remain insignificant, cash levels are declining ($52 million versus $95 million last year), and the company's investment in its stores and its entrance into the U.S. market has been expensive.

In short, one must believe in the story to get comfortable enough to buy even at these distressed valuations.

Foolish bottom line

Indigo stock is screaming "value" at these levels. The company has great retail locations, has a good shot at establishing itself as an online force to be reckoned with in books as well as general merchandise, and management has signalled a new product strategy roll out in the coming months that could help drive traffic and revenue.

Indigo's long-term strategy is to become the new department store of the future. If you believe in all this, the stock is a steal at these levels.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:GOOS (Canada Goose)
3. TSX:IDG (Indigo Books & Music)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/08/19
Date Created
2019/09/14
Author
karenjennifer