Investors: Do You Need to Buy This Stock at Its 52-Week Low?

Description

Shares of **Indigo Books & Music Inc.** (TSX:IDG) are trading at $5.95 at writing. The stock has lost over 70% since February last year. IDG is trading 60% below its 52-week high and marginally higher than its 52-week low.

IDG is the largest book, gift and specialty toy retailer in Canada with has retail operations in the United States as well, via a wholly-owned subsidiary. Its online platform in indigo.ca and offers a varied selection of books, home décor, gifts, toys, and stationery.

Declining sales have impacted IDG stock

IDG investors have been impacted by falling sales. The company revenue fell from $1.08 billion in fiscal 2018 (ended in March) to $1.047 billion in 2019. Analysts estimate IDG sales to fall by 5.1% to $993.72 million in 2020 and 0.4% to $989.75 million in 2021.

However, this slowdown in sales will not impact IDG's bottom line. The company is estimated to grow adjusted earnings by 48.9% in 2020 and by 116% in 2021. Comparatively, IDG's earnings fell at an annual rate of 14.3% in the last five years.

IDG stock is trading at a forward price to earnings multiple of 53.6. Although this multiple looks expensive, IDG is actually undervalued given the company's earnings growth estimates.

Indigo stock lost significant value after first-quarter results

IDG stock has been driven significantly lower, which was driven by its earnings miss in each of the last four quarters. The company reported earnings of -$0.69 in the first quarter, 50% below estimates.

IDG missed adjusted earnings by 714% in the fourth quarter of 2019, 40.6% in the third quarter of 2019 and 42.9% in the second quarter of 2019.

Shares of IDG fell over 15% on August 14, 2019 after reporting underwhelming first-quarter results. It reported sales of $192.6 million, which were far below analyst estimates of $237.1 million. We know that IDG's earnings were well below expectations too. But what drove the company's earnings lower?

The company has been grappling with falling sales and higher restructuring costs. While IDG lowered promotional spending to increase profit margins, this has had a negative impact on sales.

According to IDG's press release, "Decline in sales was the result of a strategic shift to reduce promotional activity to improve profitability and eliminate unprofitable sales… . Additionally, the general merchandise business continues to be affected by softer discretionary spending in certain categories core to the Company, while the book business has sustained historical trends."

The verdict

While IDG continues to struggle with sales and margin declines, the company management remains optimistic about a turnaround. IDG has suffered significant headwinds over the last two years.

The executive team at IDG expects strategic steps undertaken will help recharge growth, increase productivity and drive profitability in the upcoming quarters.

Will the company be able to compete with e-book retailers in the upcoming quarters? Does it need to shift focus on high margin products to boost profitability? How much can IDG cut promotional spending by so that it does not hurt sales?

There are far too many uncertainties surrounding IDG. The stock has a 12-month average target price of $15 which is a significant 152% higher than the current price. Surely, there will be better investments with a lower risk for investors.

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