Millennials: This 1 Stock Will Make You Rich

Description

It isn't too often that my jaw drops – and that's not just because I have an abnormally strong jaw.

I was just amazed at how undervalued **Roots** (TSX:ROOT) is. For those of you unfamiliar with the company, it sells casual wear with a focus on apparel, leather, accessories and footwear for men, women and children.

The company's logo features a beaver, and has been heralded as a Canadian icon. For those of you with a recollection of your high school and university years, you may recall that Roots sweatpants were a quintessential part of a teenager's outfit.

Nothing says *I don't care about authority* like the classic salt and pepper sweatpants from Roots. Sadly, investors are not as thrilled as teenagers when it comes to the company, with its share price falling 76% since its IPO in 2017.

Luckily for you as an investor, this presents the perfect opportunity to buy the share at a steep discount. The company is still worth the investment based on high working capital and acceptable cash flow from operations.

High working capital

Working capital is calculated as current assets minus current liabilities. It is a widely used metric in the finance world to determine whether the company has a surplus or deficit of assets to liabilities.

In the event of a working capital surplus, the company has enough assets to service its liabilities and then some. The additional assets can be directed to growing the business, which is beneficial for investors as it ultimately grows net income.

In the event of a working capital deficit, the company does not have enough assets to service its liabilities, which means that instead of assets being directed to growing revenues, the company is limited in what it can use to grow the business due to the demands of its creditors.

Roots has a working capital surplus of $13 million, which is a good sign, as these assets can be used to grow the business and deliver greater shareholder returns.

Cash flow from operations

One of the most important metrics to look for in a company with a declining share price is its cash flow from operations.

Essentially, you want to see if the company generates enough money from its main line of business to cover its current debt.

Luckily for Roots, with $19 million in operating cash flows and $17 million in the current portion of debt and capital leases, it generates enough cash internally to meet its current debt obligations.

This is good news for investors.

Bottom line

Even though Roots has seen its share price decline 76% since its IPO, it is now considerably undervalued, which makes it a good choice for riskier investors.

Given its working capital of $13 million and cash from operations of $19 million, the company is able to use assets to generate additional revenue and with the cash flow it can service its current debt and capital lease obligations.

Overall, Roots is a solid choice even if you weren't a fan of its iconic sweatpants in school.

I would highly recommend looking into this stock.

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