Canadian Investor Alert: The Retail Apocalypse Wipes Out Another Stock

Description

This past week, we saw another casualty of the retail apocalypse, as one more retailer announced it was closing all of its Canadian locations.

Texas-based Pier One Imports became the latest retailer to announce plans to shutter its doors. The company filed for Chapter 11 bankruptcy protection and is reportedly seeking a buyer. Pier 1 had previously announced that it was closing half of its American stores, but the news that all of its Canadian stores were closing came as a shock to the company's employees. Shares of the company were down nearly 90% over the past year before the company filed for bankruptcy protection.

E-commerce has triggered a fundamental shift in the retail industry, and it is having a devastating impact on traditional brick-and-mortar retailers. As the list of retail victims grows, are any retailers in Canada able to survive?

The answer is yes. There are several retailers that are not only surviving, but they are thriving in this environment.

Before we look at those retailers, here's a list of significant retail closures in the past six months. Although the companies on this list are privately held, it exemplifies how toxic the retail environment has become for smaller companies and niche brands.

Brands leaving Canada

In late January, greeting card retailers Carlton Cards and Papyrus announced it's closing all of its stores in North America, including almost 80 locations in Canada.

Athletic-wear maker Bench also announced it would be closing its 24 Canadian brick-and-mortar stores. Analysts blame the company's demise on the crowded "athleisure" market.

Fair-trade retailer Ten Thousand Villages announced its plans to close all but two of its Ontario stores.

Specialty retailer Things Engraved announced plans to shutter all of its 73 stores and terminated its entire workforce. The CEO noted that the stores had been unprofitable for several years and couldn't compete with the surge of online retailers.

And late last year, Quebec-based home décor retailer Bouclair filed notices to make a proposal under the Bankruptcy and Insolvency Act. Approximately half of the company's 60 Canadian locations are set to close.

Retailers that are thriving

While the news sounds ominous for retailers that rely on traditional brick-and-mortar outlets, here are two retailers that are bucking the trend.

Sleep Country

Sleep Country (TSX:ZZZ) is a leading Canadian retailer of mattresses and other sleep accessories. The company maintains over 250 brick-and-mortar locations throughout Canada. With the acquisition of Endy in late 2018, Sleep Country also moved to keep ahead of the trend toward buying a "mattress in a box," which has become a popular and often less-expensive way to purchase new bedding.

The company has seen its earnings grow substantially over the past year and every year since 2014. Sleep Country's EBITDA for the trailing 12 months has grown approximately $135 million. This represents growth of nearly 175% over the past six years at a compound annual growth rate of more than 20%.

The stock has traded between $16.01 and $22.56 over the past year. As of this writing, the stock is trading at $19.92 and pays a dividend of 3.74%.

Canadian Tire

Iconic retailer **Canadian Tire** (TSX:CTC.A) maintains nearly 1,700 stores located across the country. The $9.11 billion company is one of the country's largest and most successful retail chains.

Canadian Tire has done an outstanding job adding distinctive brands that are offered in its Canadian Tire stores and chains like Sport Check and Mark's. One of the company's latest acquisitions was Party City. Canadian Tire acquired Party City's 65 Canada–based retail store locations in an all-cash transaction valued at approximately $174 million in October 2019. By focusing on well-known, quality brands, Canadian Tire should continue to drive consumers into its brick-and-mortar stores.

As of this writing, the stock is trading at $147.44 with a dividend yield of 3.04%. The stock has strong growth potential. The annual growth rate estimate for Canadian Tire in the next five years is more than 17%, and some analysts have even predicted the stock could gain upwards of 20% over the next year.

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