Here's How Long 1 Retail CEO Believes it'll Be Before the Economy Gets Back to Normal

Description

The Canadian economy has come to a standstill due to the coronavirus pandemic. Social-distancing measures have forced many businesses to either shut down or significantly scale back their operations. The concern when it comes to retail is that it isn't clear how long it'll be until stores are up and running the way they were prior to the pandemic.

When might things get back to normal in the business world?

The CEO and founder of **Indigo Books & Music**, Heather Reisman, told *BNN Bloomberg* that she and others in her industry believe that it won't be until after Christmas "before business comes anywhere near back to normal." In the meantime, businesses will be bleeding money. Reisman's projection puts us at 2021 as to when things may start to normalize. It's not a shocking forecast, as few would believe that things will start returning to normal this year. The process will be gradual, and that means retail stocks are likely going to continue to fall this year.

Should investors consider buying retail stocks?

Buying retail stocks is one of the riskiest moves investors can make today. The longer the pandemic keeps stores closed, the less likely it is that retailers will be able to survive it. However, if they do, then there could be the potential to earn some significant returns in a year or two from now. As of the end of last week, **Canadian Tire** (TSX:CTC.A) was down 30% in 2020 compared to the TSX, which has declined by a more modest 19%. But those losses could get deeper as the year goes on and the economy heads into a recession.

Whether Canadian Tire is an investable stock depends on how well it can weather the storm. And to gauge that, we need to take a closer look at its financials — in particular, its cash flow.

In 2019, Canadian Tire was cash flow positive with $1.1 billion in cash generated from its day-to-day operations. It spent $759 million on its investing activities, including the purchase of plant, property and equipment, as well as the acquisition of Party City. But these are the types of expenses the company can tighten up on to conserve cash as much as it can. Many businesses, when they run into trouble, look at capital spending as an area where they can cut back.

As of Dec. 28, 2019, Canadian Tire had $206 million in cash and cash equivalents on its books. It’s not a huge stockpile of cash, but given that cash burn wasn’t a big problem for the company before, it should help the stock get through this next year.

Bottom line

Canadian Tire is a cheaper buy today than it was earlier in the year, but I’d wait for more of a decline in the markets before considering picking up the stock. The stock has recovered in recent weeks, and I’m not convinced that there isn’t more trouble ahead for Canadian Tire and other retail stocks.

Investors may want to keep Canadian Tire on their watch lists for now. And if you’re able to get the stock at around $70 or lower, which is where it was in late March, it could be a bargain buy. But just be forewarned — it won’t be without risk. Even Canadian Tire could succumb to the pandemic if it lasts longer than Reisman and others expect it to.

A safer bet would be to wait to see a couple more quarterly results from the company to see how strong its financials are amid the pandemic.

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