Earnings Season: 2 TSX "Indicator Stocks" to Watch This Week

Description

With tech and bank earnings seasons behind us, it's time to see what kind of shape the word of retail is in. Two relevant **TSX-**listed businesses will report earnings this week. Let's examine whether the following names are a buy — and what their performances on the markets might tell investors about consumer sentiment.

The consumer discretionary indicator stock

Roots (TSX:ROOT) is familiar if not iconic, known for its beaver logo and range of top-end apparel. The leather goods and accessories brand has jumped 20% ahead of earnings. A P/B of 0.38 times earnings indicates a thoroughly oversold name. Its earnings report, though, will shed some light on whether this is a solid long-term pick.

Indeed, as anybody keeping an eye on stocks will know, there's a disconnect between the markets and the actual economy at the moment. In many ways, this market/economy rift mirrors the disconnect between consumers and the brick-and-mortar world imposed by the pandemic. Would-be Roots shareholders may therefore want to wait for some accurate guidance before stashing shares.

Since retail stock performance is indicative of real-world sentiment, Roots' upcoming quarterly report should give some hint as to where things might be heading economically.

With Roots rocketing over 20% last week ahead of earnings, potential shareholders might want to wait for a post-earnings pullback before snapping up shares. Until then, analysts are giving a "hold" signal for this consumer discretionary name.

Investors can gauge sentiment through earnings reports

Consumer discretionary stocks like Roots are fairly good indicators of the retail outlook because of their discretionary nature. Non-essential purchases are a better signal of consumer sentiment than consumer staples ones, as household spending on the latter asset type is non-negotiable. In short, sales figures of luxury socks likely says more than sales of toilet paper right now.

Canadians watching performance reports this week for indications of real-world retail sentiment also have a key stock in **Transcontinental** (TSX:TCL-A). This name is worth keeping an eye on for its healthy dividend and wide-moat business operations. Transcontinental has carved out a name for itself in the specialty media space, making for a strong market leader pick.

Transcontinental's 6.8% yield is fed by diversified revenue from the Americas, the U.K., and Oceania. Earnings growth is in the cards, albeit at a nominal 5% annually. But the strongest characteristic for this stock is that distribution, which is well covered by a 53% payout ratio.

Up 10% pre-earnings, this top stock in the printing and packaging space has recovered 40% off its three-month low. Having been chewed up overall 20% by the pandemic, prospective Transcontinental shareholders still have a strong value play on their hands.

With earnings due to be reported Wednesday 10, investors will soon find out whether more value is on the way. Second-quarter results are likely to be mixed given the market.

However, even without a pullback, Transcontinental is a cheap stock with attractive fundamentals. Trading hands far below its book price and with a P/E of just 8 times earnings, this a bargain play for an overlooked market leader.

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Author
vhetherington