1 Canadian Retail Stock Due for a Pop

Description

The “meme stock” frenzy has caused a rush into retail stocks the likes of which many investors didn’t see coming. While many of the parabolic moves we saw earlier in the year appear to be winding down, there remains a significant reopening thesis with these stocks today.

Accordingly, investors taking a look at Canadian retail stocks may want to consider **Roots** (TSX:ROOT). This company has just as much a reopening thesis as its U.S. peers and has recently garnered a lot of attention from analysts. There’s consensus building that the upside for this stock could be considerable over the medium term.

So, let’s dive into what’s going on with Roots.

Strong earnings powering Roots stock higher

The hard-hit retail sector has seen its fair share of turmoil due to the pandemic. Various lockdowns and restrictions on retail have provided headwinds for the entire sector. However, among its peers, Roots seems to have managed through this crisis exceedingly well.

Mathew Lee of Canaccord Genuity thinks that Roots has been successful in delivering another impressive quarter. This April, Roots drove home a profit of $12.3 million and registered a 60% hike in e-commerce sales.

Roots’s revenue of $99.4 million surpassed Lee’s estimate of $99.3 million. However, its EBITDA was $26.1 million, which failed to exceed the analyst’s projection of $27.4 million. Then again, Roots topped the Street’s EBITDA projections of $24.6 million. I’d chalk this recent quarter up as a win.

Additionally, Roots provided impressive free cash flow of $33 million this past quarter, bolstering the company’s balance sheet. It appears e-commerce sales have not only stemmed the bleeding but are turning into a sustainable revenue source for the retailer. Thus, expectations are that the company will continue to transition more of its sales away from brick-and-mortar retail to online.

Roots has already shut down 69 retail locations as a way of stabilizing its cash flow situation. However, it appears the operational efficiencies gained by this move have enticed some investors to consider this Canadian retail brand. Accordingly, if e-commerce sales can continue to grow as they have, investors have a lot to be optimistic about.

Conclusion

Roots is a ubiquitous Canadian brand. The company has built strong customer loyalty among its base. Indeed, the pandemic provided the impetus for a shift toward e-commerce that likely would have happened anyway.

The success Roots has seen in its e-commerce segment should prove fruitful over the long term for investors who believe in this brand.

That said, Roots remains a relatively small-cap name on the TSX. Additionally, its shares aren't that liquid. Accordingly, investors who buy into this company should be prepared to do so for the long haul.

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