Will This Ultra-Cheap Stock Rebound Strongly Soon?

Description

The pandemic has impacted some companies far more than others. Tech stocks surged last year while the rest of the economy has been recovering this year. One stock that seems to have missed out is apparel retailer **Roots** (TSX:ROOT).

Roots stock had a mild recovery but has dipped in the second half of the year. The stock has lost 25% of its value since hitting a two-year high of $4.13 at the end of June. Despite this dip, it's up 20% year to date, which is in line with the rest of the stock market.

Why is this retailer being overlooked, and could its recovery in 2022 be stronger than its peers? Here's a closer look.

Waning sentiments

Roots stock has come under pressure ever since the provider of apparel, leather goods, footwear, and accessories delivered disappointing second-quarter results for the period ending in July. Net loss in the quarter landed at $1.2 million. Net sales, meanwhile, improved only slightly to $38.9 million from $38.2 million delivered the same quarter last year.

The retailer has been one of the hardest hit amid the pandemic. During the second quarter, 60% of its store remained closed compared to just 45% the same quarter last year.

Roots worsening sentiments in the market stem from the fact that it has underperformed compared to other apparel retailers that have bounced back on focusing on e-commerce. However, the company is looking to change its fortunes by focusing on product innovations and marketing partnerships. Increased focus on e-commerce is also likely to bolster the company's prospects.

With the easing of the COVID-19 restrictions, the company could post solid results for its third quarter, with results due on December 14, 2021. Meanwhile, the stock price reflects a deeply pessimistic outlook for the company.

Valuation

Roots stock currently trades at just $2.95. That's significantly lower than its all-time high of $13.5 set in 2018. Much of this decline is because of the pandemic and the company's lacklustre e-commerce performance.

However, it could be argued that Roots is underpriced despite these weaknesses. The stock trades at a price-to-earnings ratio of just 7.6. If the new variant of the virus isn't as concerning as some expect or if Roots can sustain some growth in its e-commerce segment, this valuation could quickly change.

The reopening is perhaps the biggest catalyst. If Roots can raise the shutters on most of its 68 outlets in time for the Christmas shopping season, shareholders could be in for a windfall. Keep an eye on this high-risk, high-reward retail play for the months ahead.

Bottom line

Roots has been battered worse than most other retail stocks. The company lost most of its market value since 2018 and roughly a quarter in the last few months. However, if the team is allowed to reopen physical stores in time for Christmas this year, the stock could surge higher. As it stands, it's priced for the worst-case scenario.

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