

The Fundamental Technician

Special Earnings Preview Report on Canadian Retailers

By Colin Cieszynski, CFA, CMT +1 (647) 282-4428

www.thefundamentaltechnician.com

Twitter: @ColinCieszynski, Facebook: The Fundamental Technician

December 5, 2017, 3:15 pm EDT

A big day for Canada retailer earnings looms ahead with Hudson's Bay, Dollarama, Lululemon and Roots all set to report (HBC, DOL, LULU, ROOT)

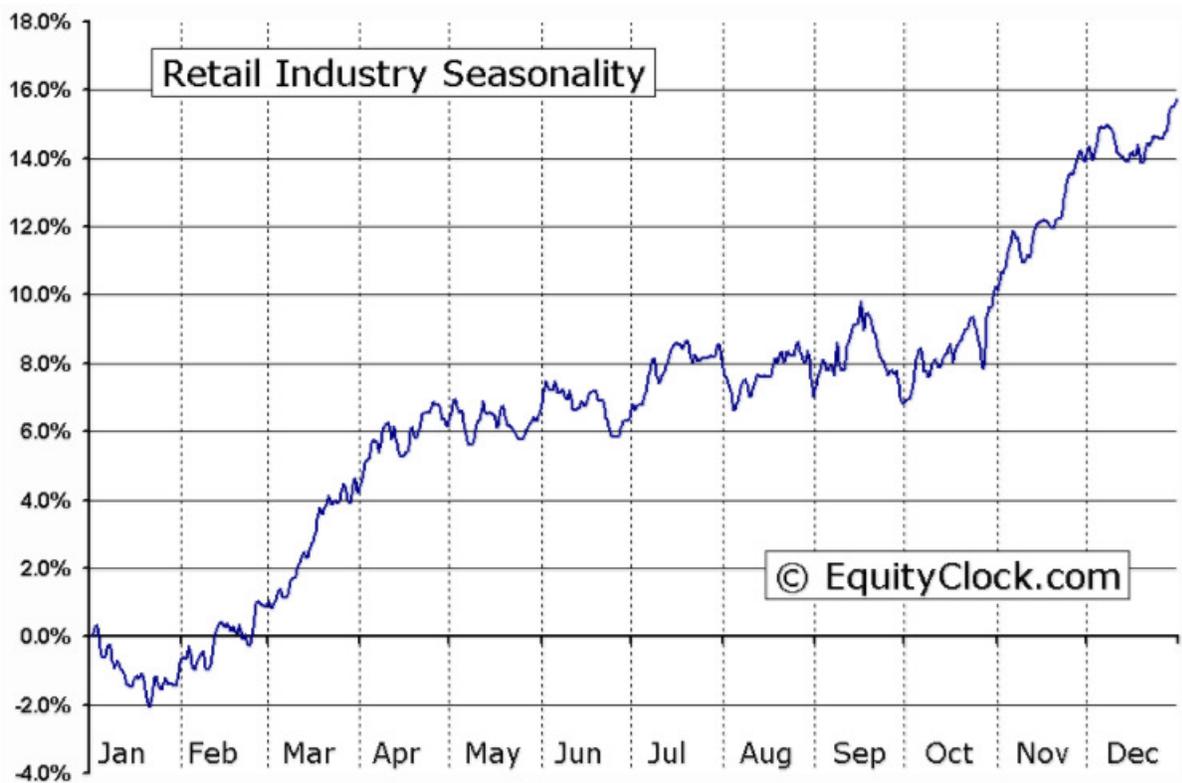
Earnings season for Canadian retailers wraps up with a flourish on Wednesday for four of the country's biggest remaining retailers representing a broad spectrum of markets and product lines from the top the bottom all set to report results for their October quarter and give an update on the prospects for this year's holiday

The elephant in the room for Canadian retailers this time around that traders may be particularly concerned about is that impact of the bankruptcy and liquidation of Sears Canada. It remains if the Sears closeout sale will have its biggest impact on The Bay's higher end lines, on specialty retailers like lululemon or Roots, or on discount retailers like Dollarama.

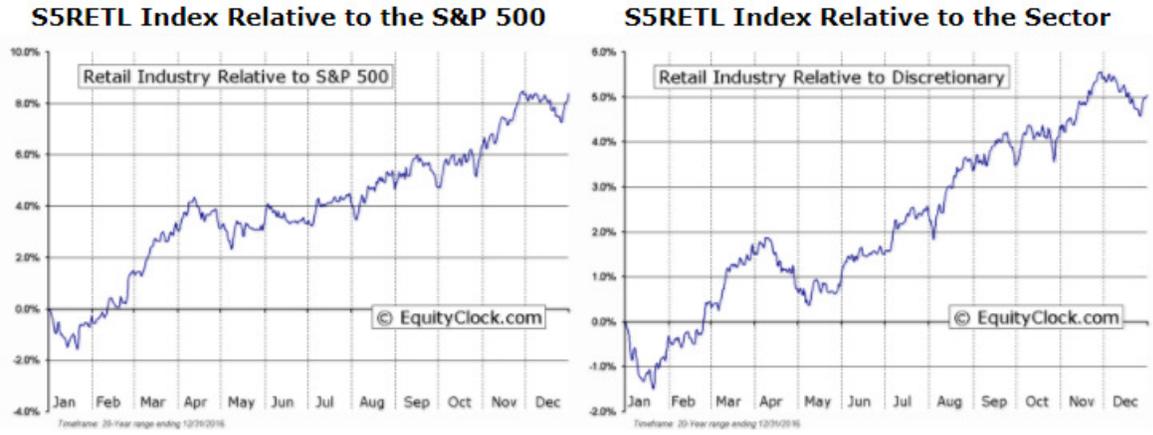
This is the first quarterly report from Roots following its big IPO and debut on the markets last month. As a newly public company, this first report could have a significant impact on expectations going forward and sentiment toward the stock for the coming year.

Heading into the results, shares of HBC, ROOT and LULU have been climbing The charts below, courtesy of our friends at EquityClock.com show that retail stocks tend to finish off the calendar year strong, but not as strong as the broader market. Retail stocks tend to have a big holiday hangover and underperform in January. DOL has already shown signs of peaking and while we could see HBC or LULU pop on the results, profit taking against their news is possible. For ROOT it's harder to say since it has a very short price history of only a few weeks.

This group of retailers may be less impacted by Amazon.com's success than others, but their response to the overall trend toward online retailing may still be of interest to the street, whether it be through ramping up their own online offerings, or showing how brick and mortar locations can still work in some markets.



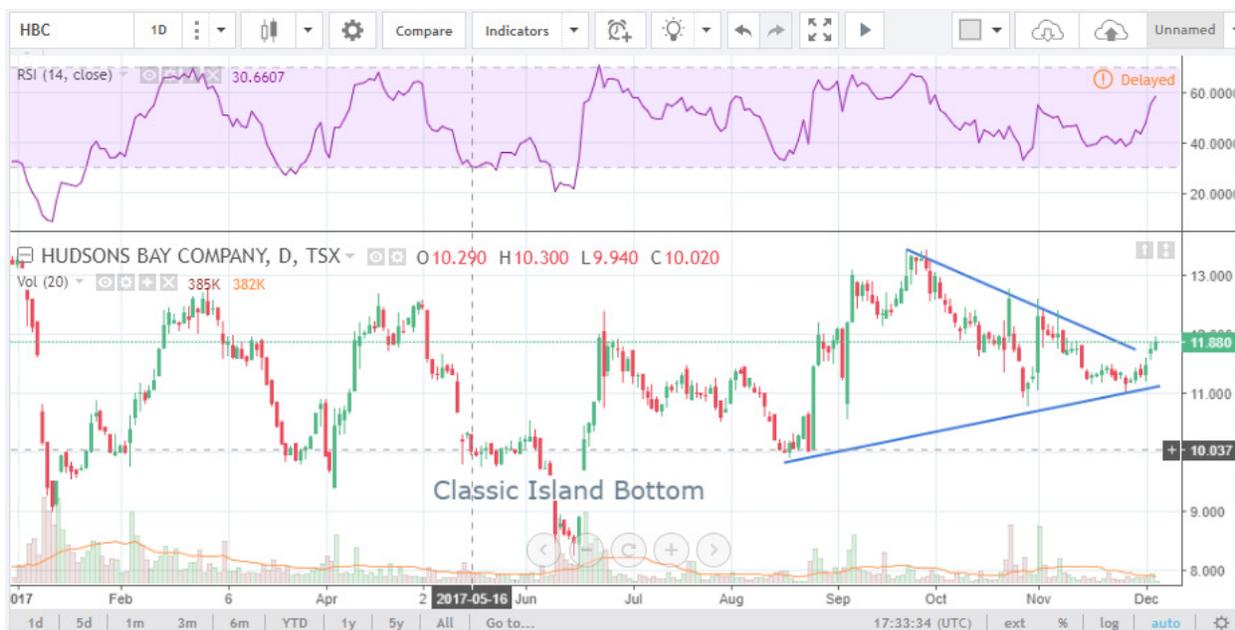
Source: EquityClock.com



Source: EquityClock.com

Hudson's Bay Company (HBC)

North America's oldest continuously operated company is expected to report a loss of \$0.69 per share, the same as a year ago. For the last year, the shares have been stuck in a sideways trend between \$9.00 and \$14.00. Back in June, the shares completed a classic Island Bottom with a gap down, a short time forming the lows then a gap up, leaving the bears trapped offside. Since then, the shares have generally been recovering and momentum has been turning upward. A recent downswing appears to be over but unless the company can convince the street it's on the road to profitability, upside could be limited to the top of the year long range.



Source: TradingView.com

Dollarama Inc. (DOL)

Dollarama has been one of the biggest success stories in Canadian retail in recent years and the growth of the share price shows it. Signs have emerged, however, that expectations may have grown too high and the shares may have already peaked.

Last week, the shares completed a bearish 3-day Evening Star pattern with a bearish Shooting Star at the peak, which also coincided with a peak in volume. A correction has been underway that could be terminated or accelerated by the results. The street is expecting Dollarama to earn \$1.12 per share, up 21.7% over the same quarter a year ago. With the shares trading at 35x earnings, giving it a P/E to growth ratio of 1.63 elevated but not ridiculously high expectations and the risk of disappointment have been built into the share price already.

On a rally, initial resistance may appear near \$157.75 or \$160.75. On a downturn, initial support may appear near \$151.35, the \$150.00 round number or \$148.00.



Source: TradingView.com

Lululemon athletica (LULU)

Lululemon is expected to earn \$0.52 per share this quarter up from \$0.36 last quarter but only marginally higher than the same quarter a year ago. Since completing a double bottom back in June, the shares have been steadily recovering and have been creeping back up toward their 52-week with near \$71.00, recently trading near \$68.00, slightly above the middle of the shares \$40.00 to \$80.00 five-year trading range. Although the company has been profitable in recent quarters, it remains a show-me stock given its past problems.



Source: TradingView.com

Roots Corp. (ROOT)

This is Roots first quarterly report as a public company, and because of this, the numbers are likely to attract a lot of scrutiny from traders trying to figure out if the IPO outlook was aggressive or conservative. Following their debut on the TSX, the shares tumbled from \$11.50 to a low near \$8.50 but in recent weeks have been steadily recovering, recently breaking out of an ascending triangle base and trading above the psychologically significant \$10.00 level. The shares have yet to regain the IPO price of \$12.00 per share which could emerge as a significant barrier on the upside.



Source: www.tradingview.com

This article is intended as general market commentary, based on sources considered to be reliable but could contain unintended errors. Commentary, estimates and charts are provided for information, education and entertainment purposes. They are not intended as and should not be construed in any way as investment advice. The authors assume neither liability nor credit for returns from readers' trading or investment activity. We do not accept any remuneration from companies mentioned in this report. The authors or related parties may enter or exit short term trading positions in markets mentioned in this report at any time without notice. Some of the charts used in this commentary are based on Forex and Contracts for Difference (CFD) markets; leveraged products which carry a higher degree of risk and may not be suitable for all investors. CFD trading is not available in the United States of America. Copyright 2017 The Fundamental Technician, all rights reserved.