Rise Ahead for Electronics Retailers

This group had stellar December sales and boasts some solid fundamentals to boot.

BY WAYNE BURRITT
Jan 18, 2007 9:23 AM EST

This column was originally published on RealMoney on Jan. 17 at 3:30 p.m. ET. It's being republished as a bonus for TheStreet.com readers. For more information about subscribing to RealMoney, please click here .

In my recent column recapping the 2006 holiday shopping season , I pointed out that good -- but not great -- holiday performance for retailers would likely translate into mixed -- but not terrible -- results for December retail sales.

So even I was surprised by the better-than-expected, downright bullish retail report released by the Commerce Department on Friday. In particular, I liked the results from a retail group I've had my eye on for some time: electronics retailers.

Holiday Brings Cheer

On a year-over-year basis, total retail sales jumped a seasonally adjusted 5.4% in December. However, electronics and appliance stores booked a staggering 15% increase -- the biggest year-over-year increase since the early '90s. That's very bullish news.

Along with electronics stores, sales in several other discretionary retail groups showed solid year-over-year improvement for the month. These included generalmerchandise retailers, up 5.4%; furniture and home-furnishings stores, up 7.6%; and restaurants, up 9.3%. When discretionary retail spending pops like that, it clearly signals that consumers' income is robust and flowing nicely. That, in turn, means more cash for MP3 players, home-theater systems and digital cameras, and that's undoubtedly bullish for electronics retailers.

In fact, I wasn't surprised that retail sales at electronics stores led the way in December. The group's major discounting fueled a stellar Black Friday shopping weekend, getting the 2006 holiday shopping season off to a vigorous start. My own trips to the mall confirmed that a flood of Nintendo video-game consoles, digital music players and flat-panel, high-definition TVs was pouring out retailers' doors. However, I don't believe anyone expected the group's sales to improve at a mind-boggling 15% clip.

From a bird's-eye view, the electronics retail group also boasts many outstanding fundamentals, including a $36 billion market cap, a price-to-earnings ratio of 25.1, and a return on equity of 15%. Those numbers are attractive, but here's the best part: The group carries a long-term debt-to-equity ratio of just 0.26. Translation: For every dollar in owners' equity, electronics stores have just 26 cents in debt. That's less than a fifth of the services industry's long-term debt-to-equity ratio of 1.48, and it shows me that the group maintains solid balance sheets, an important factor for any retailer.

Right now, I have my sights on a couple of electronics retailers that both fundamentally and technically look poised for a move up:

- **GameStop** (**GME**): This retailer of video-game products and PC entertainment software operates 4,490 stores. It has a $4.4 billion market cap and a weekly chart that looks spectacular.

- **Circuit City** (**CC**): The powerhouse retailer sells brand-name consumer electronics, personal computers and entertainment software. It carries a P/E ratio of 25 and a miniscule 0.05 long-term debt-to-equity ratio. Technically, the stock is in recovery mode, but is making headway to the upside.

- **Guitar Center** (**GTRC**): The company, which sells guitars and amplifiers as well as percussion and electronic instruments, operates 183 Guitar Center stores and 90 Music and Arts Center stores. Its 17.7 P/E makes it one of the most undervalued plays in the group. Like Circuit City's, its shares are technically in recovery mode but are gaining ground.

With staggering results for December providing solid momentum, the electronics retail group is looking good right now. Next week, I'll drill more deeply into the group for potential big movers. In the meantime, don't forget to do your own research!

An Update on Apparel Retailers and the RTH

Most apparel retailers did a lot of crying and complaining about the warm weather, which was supposedly crushing their sales during the 2006 holiday shopping season. Despite all that, December sales for the group were up a respectable 5.5% compared with the year-ago period. While that's not the greatest result in the world, it certainly wasn't the 2.5% to 3% gain that I expected the group to bring home for December. So if you're looking for a way to get started with some top-notch apparel retailers poised for a move up, take a look at last week's column for some ideas and updates.

As I mentioned in my column in early November, the **Retail HOLDRs** (**RTH**) -- a good proxy for the retail group as a whole -- looked golden once it broke above stubborn resistance at $101 on a weekly chart. Good news! The RTH has now broken above that level with recent trades in the $102 area. That makes it very attractive and a great way to get involved in the sector as a whole.

At the time of publication, Burritt had no positions in the stocks mentioned, although positions may change at any time. Wayne Burritt is president and director of equity research for Burritt Research, which operates BurrittResearch.com. Under no circumstances does the information in this column represent a recommendation to buy or sell stocks. Burritt appreciates your feedback; **click here** to send him an email.

Right now, I have my sights on a couple of electronics retailers that both fundamentally and technically look poised for a move up:

- **GameStop** (**GME**): This retailer of video-game products and PC entertainment software operates 4,490 stores. It has a $4.4 billion market cap and a weekly chart that looks spectacular.

- **Circuit City** (**CC**): The powerhouse retailer sells brand-name consumer electronics, personal computers and entertainment software. It carries a P/E ratio of 25 and a miniscule 0.05 long-term debt-to-equity ratio. Technically, the stock is in recovery mode, but is making headway to the upside.

- **Guitar Center** (**GTRC**): The company, which sells guitars and amplifiers as well as percussion and electronic instruments, operates 183 Guitar Center stores and 90 Music and Arts Center stores. Its 17.7 P/E makes it one of the most undervalued plays in the group. Like Circuit City's, its shares are technically in recovery mode but are gaining ground.

With staggering results for December providing solid momentum, the electronics retail group is looking good right now. Next week, I'll drill more deeply into the group for potential big movers. In the meantime, don't forget to do your own research!

An Update on Apparel Retailers and the RTH

Most apparel retailers did a lot of crying and complaining about the warm weather, which was supposedly crushing their sales during the 2006 holiday shopping season. Despite all that, December sales for the group were up a respectable 5.5% compared with the year-ago period. While that's not the greatest result in the world, it certainly wasn't the 2.5% to 3% gain that I expected the group to bring home for December. So if you're looking for a way to get started with some top-notch apparel retailers poised for a move up, take a look at last week's column for some ideas and updates.

As I mentioned in my column in early November, the **Retail HOLDRs** (**RTH**) -- a good proxy for the retail group as a whole -- looked golden once it broke above stubborn resistance at $101 on a weekly chart. Good news! The RTH has now broken above that level with recent trades in the $102 area. That makes it very attractive and a great way to get involved in the sector as a whole.

IF YOU LIKED THIS ARTICLE YOU MIGHT LIKE

How to Pick Winning Retail Stocks, Pt. 2

Wayne Burritt | Jun 8, 2007 4:30 PM EDT

How to Pick Winning Retail Stocks, Pt. 1

Wayne Burritt | Jun 8, 2007 4:28 PM EDT

Big Week for Retail

Wayne Burritt | Dec 21, 2006 8:04 AM EST