5 Reasons to Buy Big 5 Sporting Goods Stock



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August 19, 2021 5 min read

This story originally appeared on MarketBeat

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Sixteen months removed from trading under $1.00 per share, the small-cap sports retailer seems to be firing on all cylinders these days. Here are five reasons why it can continue to produce championship caliber returns for investors:

Strong Underlying Demand

Big 5 Sporting Goods has been cranking out quarter after quarter of record performances. In the most recent quarter, same-store sales jumped 31% and profits were a record $37 million. While much of the recent growth has stemmed from hyper-demand for outdoor recreation goods and athletic gear during the pandemic, customer traffic has been steady. Second-quarter sales were 33% above pre-COVID levels.

The company's recent numbers would've been even stronger absent the ongoing supply chain and hiring challenges that have plagued most retailers. Supply issues have gradually improved since last year and are expected to weigh less on Big 5's ability to meet customer demand in 2022. Staffing issues may take more time to iron out as the labor market grapples with oversupply conditions despite increased wages. This will likely weigh on near-term profitability but as inventories get built up, the strong underlying demand should drive more positive earnings surprises.

Old School Retail Approach is Working

It's been no secret that to be successful in today's retail environment, businesses need to embrace an omnichannel approach. Yet Big 5 has been slow to build out its e-commerce platform—and that could be a good thing.

It has 429 brick-and-mortar locations across 11 U.S. states. These stores carry a wide assortment of athletic apparel, shoes, and equipment as well as camping, hunting, and fishing gear. Five more stores are expected to be opened in the remaining months of the fiscal year.

A more select variety of merchandise can be found at Big 5's slowing emerging online storefront. But while other sporting

goods retailers have sprinted towards the online opportunity, Big 5 has hung in the back of the pack. The company has acknowledged that customers and competitors are increasingly going digital, but investments have thus far been limited.

E-commerce sales were immaterial in fiscal 2020 and will likely be the same this year. That's good for two reasons. One, Big 5 hasn't even scratched the surface of growing digitally and has a huge potential growth lever ahead. Two, the fact that it can achieve such strong results without a big online storefront says a lot about the loyalty of its customer base. There is something to be said about the charm of the traditional sporting goods store and Big 5 seems to be getting it right. Its website could best be used as a place where customers check to see what is in stock and could eliminate the costs associated with online shopping returns.

A Rising Dividend

Last quarter, the Board declared a 39% dividend hike that was reflective of the strength in the business. This marked the fourth straight time Big 5 raised its quarterly dividend. It has very quickly gone from $0.05 to $0.25 per share which on an annualized basis represents a 4.6% forward dividend yield.

This is a highly unusual dividend yield for a small-cap retailer. By comparison, the present yield of the S&P 600 small-cap index is 1%. It makes Big 5 an appealing investment for growth and income investors alike.

And it wouldn't be surprising to see the dividend get increased again. The company is generating solid cash flow and the balance sheet is the healthiest it has been in a long time. It includes a $119 million cash position and no debt. This is a great position for a retailer to be in because it affords it the flexibility to pursue growth opportunities, reward shareholders with dividends and buybacks, and if needed, take on debt.

Pullback Screams Buy

Big 5 Sporting Goods climbed as high as $37.75 in June 2021. It has since retreated more than 40% and volume on the way down has slowed. Now trading in the low $20’s investors have a favorable entry point for a company that has more growth in the tank.

From a technical analysis perspective, the Bollinger Band is also noteworthy here. Big 5 is resting comfortably at the lower band, an area it hasn’t slipped much below in recent weeks. If the stock can break through resistance at $21.92, a return to the $30’s could happen in short order.

One Cheerleader is Better Than None

There is only one sell-side firm that covers Big 5 Sporting Goods. Lake Street first called the stock a ‘buy’ in October 2020 when it was trading around $8 a share. It became a near five-bagger from there before the recent pullback.

Earlier this month, Lake Street reiterated its ‘buy’ rating and raised its target price from $26 to $31. The analyst cited the retailer’s record Q2 results and better than expected Q3 guidance. While that’s no five-bagger, the implied 40% upside makes Big 5 worth a sporting try at current levels.

As a bonus sixth reason to buy Big 5, its shares are trading at less than 7x forward earnings. It’s much larger peer Dick’s Sporting Goods has a forward P/E of 14x. Toss in Big 5’s generous dividend and this has the makings of a David versus Goliath upset.

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