Gift Guide: What Should You Get Your Portfolio for Valentine's Day?

Some stocks are cyclical, and others receive a noticeable boost from certain times of year. For example, retail stocks benefit during Christmas, while auto repair stocks tend to benefit during the harsh and icy winter months. With millions of Americans rushing to gift and candy stores on February 14th, Valentine's Day is no exception. Check out the following bundle of reports on nine Valentine's Day stocks that will likely be good and bad plays for the rest of the year.

Tiffany & Co. (TIF)

One of the oldest and most storied American jewelers, Tiffany & Co. has been selling diamonds and other fine goods for almost 200 years. It has also spent much of its recent history churning out increasingly large profits. Since 1998, Tiffany has grown after-tax operating profits (NOPAT) by 13% compounded annually. Over that timeframe, Tiffany's return on invested capital (ROIC) never dipped below 10%, and it currently sits at just over 12%. The most recent data available indicates this past year was perhaps the most lucrative in Tiffany's long history. On a trailing 12-month (TTM) basis, Tiffany has grown revenues by over 7% has earned over $675 million in free cash flow. The company has also increased its profit margins from 13% in 2013 to 15% on a TTM basis.

Many investors' mouths will water when presented with this impressive track record of profitability. However, Tiffany is one example of when a truly great company can be a so-so stock. To justify its current price of $86/share, Tiffany would need to grow NOPAT by 7% compounded annually for the next 29 years. Even after the stock's recent pullback, Tiffany remains a premium company with a premium valuation. We don't think this company is going to be struggling anytime soon, but TIF shares need to be a good deal cheaper to make this stock a good investment. As a result, TIF earns our Neutral rating.

Coach (COH)

Coach has been in many value investors' crosshairs for some time now. While the stock has been cheap since 2011, the company's profits have been in a steep slide since 2013. Between 2001 and 2013, Coach grew NOPAT by an impressive 27% compounded annually, but since 2013, NOPAT has dropped by 28%. Margins have also suffered and dropped from 22% in 2013 to 17% on a TTM basis. Coach's ROIC is still impressive at 31%, and speaks to the brand's staying power, but this number is a far cry from the 51% ROIC earned as recently as 2012.

Still, all is not lost for Coach. The company is still generating free cash flow of $780 million, and the company's recent earnings beat and acquisition of shoemaker Stuart Weitzman offers hope for revenue growth in the coming years. At its current price of $37/share, COH has a price to economic book value (PEBV) ratio of 1.1. This number implies that the market expects Coach's NOPAT to increase by only 10% over the rest of the life of the corporation — a very pessimistic outlook given the company's rich history. While buying COH is a bet on this company's turnaround, there's plenty of upside to be had here. If Coach can grow NOPAT by 5% for the next 9 years, the company is worth $50/share, a 35% upside. The next year or so is still going to be pretty rocky for Coach, but if the company is able to string together a few quarters that show revenue stabilization, COH will have earned its Attractive rating.

Michael Kors (KORS)

Michael Kors is the Apple to Coach's Microsoft. The once-upstart clothing and handbag designer is now eating Coach's lunch and growing at breakneck speed. While the venerable and lumbering Coach is just now expanding out of its core handbag market, Michael Kors has seen success in bags, women's clothing, and women's watches. Michael Kors is having a moment, and you can rest assured that many women will be waking up to a new Michael Kors watch or bag on Valentine's day. This success is reflected in the company's financials: Michael Kors has grown NOPAT by an eye-watering 68% compounded annually since 2012. The company has almost doubled its margins over that timeframe, from 13% to 20%, and the company's ROIC of 41% is among the highest of any Consumer Discretionary company. Best of all is the company's $934 million in excess cash that is waiting to be reinvested in its business or redistributed to shareholders.

Despite these high-flying financials, KORS was long too expensive to be seen as a good investment. However, after the stock's rocky 2014, investors have the chance to pick up shares of this high-growth company with a great brand. The stock's current price of $71/share gives KORS a PEBV ratio of 1.8. While this is on the high side for value-minded investors, KORS has proven that it has the profit growth to back up this kind of premium valuation. If Michael Kors can grow profits by 12% compounded annually for the next 13 years, the company is worth $99/share, a 39% upside. Despite being on the expensive side, Michael Kors' excellent profit growth, brand, and capital allocation earn the stock our Attractive rating.

Nordstrom (JWN)

It's been a rough year or two for retailers, but Nordstrom has weathered the storm better than most, thanks in part to the company's strong brand and management. Nordstrom has grown NOPAT by 21% compounded annually since 2001, but this growth slowed to just 3% annually after 2012. The company currently earns a solid ROIC of 12% on a TTM basis, and revenue growth has picked up a bit in the most recent quarters. TTM margins have been mostly stable at 7% (relative to 8% in 2012) which indicates limited reliance on sales and discounts to drive revenue growth. Nordstrom has earned positive free cash flow every single year since 2004, growing to $348 million in 2014. The company's $8 million in free cash flow on a TTM basis is certainly on the low side, but it looks as if this money has gone straight into selling expenses and capex.

Nordstrom is one of the most consistently successful brick and mortar clothing retailers, and its emphasis on customer service and satisfaction will help defend the company's in-store operations against the rising popularity of online shopping. At its current price of $76/share though, JWN is richly valued. To justify this valuation, Nordstrom would need to grow NOPAT by 7% compounded annually for the next 13 years. While we don't believe Nordstrom will be going the way of the dodo any time soon, the rough retail environment and Nordstrom's sluggish growth of late make us cautious to bet on this kind of profit growth. As a result, JWN earns our Neutral rating.

The Hershey Company (HSY)

Maker of chocolates and other sweets, The Hershey Company has long been a staple of the American economy. The company still makes chocolate to the same specifications as when it was founded in Hershey, Pennsylvania in 1894. In the most recent quarter, Hershey announced revenues were up 4% over the prior year, and that going into 2015, the company expected sales to rise another 5-7%. Foreign currency issues were cited as a drag on profits, something that has been occurring as of late with many headwinds across the globe. Hershey also announced plans to acquire Krave Jerky, entering the all-natural meat snacks segment, which could help fuel growth going forward.

While Hershey has been historically very profitable, and has seen profit growth into the double digits each year, it seems the market has placed an appropriate valuation on the company. To justify its current valuation of $102/share, Hershey must grow NOPAT by 7% compounded annually for the next 9 years. This target is certainly within reach of the venerable and profitable Hershey, but we have a hard time seeing Hershey exceeding these expectations. We think that Hershey is fairly valued at this price, and that value investors should probably look elsewhere. HSY earns our Neutral rating.

1-800-Flowers.com (FLWS)

1-800-Flowers.com, a florist and gift shop across the United States would figure to be a staple of Valentine's Day spending. Despite this, the company currently earns our Very Dangerous rating. 1-800-Flowers.com provides many products apart from flowers including fruit baskets, stuffed animals, popcorn products, chocolates and candy baskets. The company reported earnings for its fiscal 2015-second quarter on February 2, 2015. Results were impressive for the quarter, but many of the positives were noted as a result of the company's purchase of Harry & David that was completed in September 2014. Revenues and operating income grew by 100% over last year, and gross margin's increase was directly attributed to the Harry & David acquisition. So far, this acquisition appears to be a positive for 1-800-Flowers.com. Management must continue to realize the benefits touted such as integrated shipping, and cost synergies between the two companies.

The downside to 1-800-Flowers lies in its history of poor fundamentals. After peaking in 2008, the company has been hit-or-miss when yearly results are released. NOPAT is down to $17 million on a TTM basis, 30% lower than 2008's highs. The company's ROIC is a bottom-quintile 5%, and free cash flow sits at -$81 million TTM. Compounding these issues, 1-800-Flowers.com has generated negative economic earnings for 10 consecutive years. These issues have led FLWS to be vastly overvalued unless a drastic turnaround happens. To justify its current price of ~$8/share, 1-800-Flowers.com must grow NOPAT by 18% compounded annually for the next 17 years. A company with as poor a track record of consistent NOPAT growth can't be counted on to deliver the results already baked into the current stock price.

Signet Jewelers (SIG)

Signet Jewelers might be best known for its Kay Jewelers, Zales, and Jared brands, but the company also operates popular jewelers in the United Kingdom. Signet Jewelers reported its holiday season earnings in early January and initial results are positive. Same store sales across the entire company were up nearly 4%, with the UK division leading the charge with a 10% same store sales increase over the prior year. The company noted strong growth in its e-commerce sales as well. However, much like FLWS above, Signet's less than stellar history, and the 15% increase in stock price since October 2014 gives Signet our Dangerous rating.

Since 2012, Signet has grown NOPAT by 4% compounded annually while its ROIC has declined from 9% to 8%. The main reason for this declining ROIC is that the company's invested capital, or the money invested into the business, has grown by 8% compounded annually since 2012. Growing the balance sheet at double the rate of profits is not a business model to follow. At the same time, the company generated negative economic earnings in 2014, and has over $1.6 billion in off balance sheet debt in the form of operating leases. After its recent price increase, Signet now has the high price of a company with a long history of growing profits while becoming more efficient with the cash being put into the business. As we see from above, this is not the case. To justify its current price of ~$120/share, Signet must grow NOPAT by 16% compounded annually (4x its most recent NOPAT growth) for the next 12 years. A strong holiday season does not erase the spotty fundamental problems with Signet.

Kate Spade & Co. (KATE)

Kate Spade & Co, maker of fashion apparel and accessories, operates through many brands, including Juicy Couture, Liz Claiborne, and its namesake, Kate Spade. Kate Spade earns our Very Dangerous rating, mainly due its overvaluation. Despite impressive 4Q14 results, the company has struggled to grow the business over the past few years. At current levels, the company's valuation reflects a successful turnaround, when in reality the turnaround has only just begun. In its 4Q14 results announcement, Kate Spade revealed that total sales grew 40% from the prior year, comparable store sales grew 26%, and gross margin would fall in line with previous estimates. The company also announced it will be focusing on its Kate Spade New York brand, and discontinue its Kate Spade Saturday standalone business. Jack Spade will also receive renewed focus to build on the strong results posted in 4Q14.

This quarterly release is certainly a positive for Kate Spade — but the company must prove that it can build on this success (see our take on KORS elsewhere in this report) . Over the past 10 years, the company's NOPAT has declined by 18% compounded annually. NOPAT has declined yearly since 2011. Kate Spade has shown recent signs of profit growth, but not sustained growth over the long term. The company currently earns a bottom-quintile ROIC of 2%, the same level it has been since 2011. To justify its current price of ~$32/share, Kate Spade must grow NOPAT by 19% compounded annually for the next 21 years. In this case, despite a positive quarter, the growth expectations already embedded in this stock make it one to avoid.

Blue Nile (NILE)

Blue Nile operates as an online retailer of diamonds and fine jewelry. The company focuses mainly on engagement rings and other wedding-related jewelry and operates in North America and the United Kingdom. Blue Nile has struggled as of late, attempting to find the best way to sell diamonds online in a market where trust and the experience can sway purchasers' decisions. At the end of 3Q14, total sales were up only 4% for the year. Higher taxes caused Blue Nile's reported income to be well below the prior year. Unfortunately the slow growth in sales has been a trend over the last few quarters.

Over the past few years, Blue Nile's NOPAT has also stagnated, currently sitting at the same levels last seen in 2009. Blue Nile has generated positive economic earnings every year since 2004, and currently has free cash flow of $7 million and only $8 million in total debt, including $7 million in operating leases. While the current quarter was not as impressive as some had hoped, NILE earns our Neutral rating due to its lukewarm earnings and somewhat high valuation. At its current price of ~$31/share, NILE has a price to economic book value of 2.3.

This ratio implies the market expects Blue Nile to grow NOPAT by 230% over the life of the company. From 2004 to 2010, Blue Nile grew NOPAT by over 300% so this expectation has some roots in the history of the company. Still, Nile must prove it can grow at this rate again before investors should consider its stock.