



## Growth Is Getting Harder to Come By in Canadian Retail

### Description

A new Moody's report on nine of Canada's largest retailers has concluded that growth will be very hard to come by. The report predicts that operating income for the group will grow by 2.0% to 2.5% this year, compared to 3.0% in 2013. And sales growth will be even lower.

#### A tough slog for the grocers

Of all the retail segments, the Canadian grocers will have the toughest time finding growth – Moody's predicts organic grocery retail growth of 1% to 1.5% in 2014. This will make it difficult for Canada's three large grocers to grow earnings. Last year, operating earnings grew by 4% for the three, and that number will be difficult to reach in 2014.

The main culprit is continued expansion from large American rivals such as **Walmart**, **Costco**, and **Target**.

#### A tough environment for Quebec's retailers

Of the three grocers, Montréal-based **Metro Inc** ([TSX:MRU](#)) may have the toughest time. After its two large rivals both made major acquisitions last year, Metro does not have nearly as much scale as its competitors. Moody's has said that Metro may even need to make an acquisition of its own.

Likewise, Quebec-based **Jean Coutu** ([TSX:PJC.A](#)) also faces scale disadvantages. So like Metro, the pharmacy chain may need to make a sizable acquisition of its own, according to the report. Ironically, Jean Coutu has often been rumoured as a takeover target, especially after the Shoppers Drug Mart acquisition last year.

#### A couple of bright spots

The most promising sector in Canadian retail continues to be dollar stores. According to the report, there is room for another 1,000 dollar stores in Canada before the country reaches the same saturation levels as the United States. This is of course good news for **Dollarama** ([TSX:DOL](#)), which has 847 locations across the country, and whose same-store sales growth most recently came in at healthy

4.8%.

Another bright spot is **Canadian Tire** ([TSX:CTC.A](#)). While its flagship stores face the same impediments to growth as the other retailers (as it has for many years), its Mark's and Sportchek banners have much more upside.

### **Foolish bottom line**

The Moody's report should not come as a shock. Canada's economy is not growing at a breakneck speed, and competition from the American giants has been getting tougher every year. But the report still serves a sobering reminder that growth will be very tough to come by. And that's something very important for investors to remember.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:DOL (Dollarama Inc.)
3. TSX:MRU (Metro Inc.)
4. TSX:TLRY (Aphria)

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