3 Retailers for Your Portfolio

Description

It's an ominous time for Canadian retailers. Increasing competition from the United States, the growth of online alternatives, and a weak Canadian dollar are all threatening what has been a relatively stable sector.

That said, there are still some things to like about the Canadian retail space. It's not as competitive as American retail. **Amazon.com** and **Walmart** are not as threatening. And a lot of our retail chains are fairly robust, able to handle to handle downturns in the economy.

So which is the best one to add to your portfolio? Below are three options.

1. Canadian Tire

Up until May of last year, **Canadian Tire** (TSX: CTC.A) was one of the most uninspiring stocks on the Toronto Stock Exchange. The retailer had few growth prospects at its flagship stores, was not earning sufficient returns on capital, and supposedly was going to suffer from **Target's** (NYSE: TGT) arrival.

A lot can change in just over a year. First came the announcement that Canadian Tire would be creating a new REIT from its owned real estate. Then came the announcement that it would be monetizing its credit card portfolio. Finally, Target's struggles in Canada have helped Canadian Tire beat expectations. The stock today trades at over $100, compared to under $70 at the beginning of last year.

So how much upside is there now? Well, not as much as last year. But the company is swinging for the fences on a lot of initiatives, such as online retailing, an upcoming digital loyalty plan, in-store technology, and expansion of its Sport Chek banner. If Canadian Tire is able to connect on these, the shares should soar higher.

2. Dollarama

Dollarama's (TSX: DOL) success comes down to two things. One is a consistent ability to save people money, which has made individual locations very successful. Even when the company introduced items at higher price points, they still caught on, since customers knew they were still getting a good deal. The other is steady store growth, from 585 locations in August 2009 to 874 in February 2014.

The problem with buying Dollarama stock today is its price. At nearly 27 times earnings, the shares are certainly expensive, and dividend-focused investors won't be attracted to the minuscule 0.7% yield.

3. Hudson's Bay Company

Hudson's Bay Company (TSX: HBC) may be the most at risk from American competitors, and the fate of stores like **Sears** and **J.C. Penney** serves as a warning for what can happen to department stores.

But Hudson's Bay Company has been using the value of its real estate to prop itself up, including a leaseback of the downtown Toronto location. There could be further upside if it continues to make these kinds of moves.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TGT (Target Corporation)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:DOL (Dollarama Inc.)

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