

Canadian Tire vs. Dollarama: Which Should You Buy?

Description

When investing in the United States, buying a retailer is a very dangerous game. Competition is intense, with heavy discounting often required to bring customers in through the door. There is always the threat of a giant like **Walmart** stealing market share. If a retailer doesn't evolve with the times, it risks getting left behind in a hurry — does anyone remember Circuit City?.

In Canada, the environment isn't as bad. Competition is less intense, Walmart has less of a presence, and the established players have all the best real estate. In fact, the last couple of years have been particularly good for retailers and their investors. Are any retailers still ideal for your portfolio? Below we take a look at two successful ones.

1. Canadian Tire

Before May of last year, **Canadian Tire** (<u>TSX: CTC.A</u>) was one of the least desirable stocks to own on the TSX. Growth was hard to come by, few people trusted management, and most observers were waiting for **Target** to come in and steal its customers.

Then everything changed. First came the decision to create a REIT from the company's owned real estate. The following quarter, Canadian Tire announced that it would seek a bank partner for the retailer's credit card receivables, and eventually partnered with **Bank of Nova Scotia**. Finally, Target had its struggles north of the border, so Canadian Tire's share price went on an upward march, from less than \$70 to over \$100.

Is there still an opportunity? Well, the company is swinging for the fences on a lot of initiatives, from smaller stores, to a digital loyalty program, to its Sport Chek expansion. If the company executes well, then \$100 will seem like a bargain for its shares.

2. Dollarama

Speaking of an upwardly marching share price, **Dollarama** (<u>TSX: DOL</u>) has certainly been on a tear since going public in 2009. There have really been two keys to its success. One is a consistent ability to make a profit selling items for far less than its competitors. This has allowed the company to offer its

customers plenty of great bargains, draw lots of traffic, and make a strong return when opening up a new store.

The second key has been very rapid growth in the number of stores. Back in August 2009, Dollarama had 585 stores, and now has about 900. There is still room for plenty more; Canada still doesn't have nearly the same concentration of dollar stores as the United States does.

So what should you do?

Unfortunately, Dollarama, at 24 times earnings, is probably too expensive for your portfolio. If you already own a bunch of banks and energy companies and want some diversification, then Canadian Tire is a very good option.

CATEGORY

1. Investing

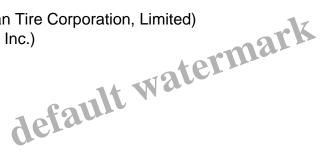
TICKERS GLOBAL

- 1. TSX:CTC.A (Canadian Tire Corporation, Limited)
- 2. TSX:DOL (Dollarama Inc.)

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