Are Canadian Tire Corporation and Dollarama Inc. the Best Options for Investors?

Description

It has been a rough time for those in the Canadian retail market in the past six years, **Indigo/Chapters** is going through an identity crisis, **XS Cargo** has started liquidating, **Staples** has announced 15 store closures, and **Sears Canada** might as well start replacing their in-store "elevator music" with a loop of "The End" by the Doors.

Even U.S. giant **Target** has learned a bitter billion-dollar lesson north of the border, and despite a September consumer report that shows that it is cheaper than **Wal-Mart** in some areas, consumers are still uninterested. With all these troubled companies out there, surely there are one or two that are thriving and worthy of your investment. So which among Canadian retailers won't leave you burned?

A revitalized stalwart

The **Canadian Tire Corporation** (TSX: CTC.A) in recent years has appeared as an anomaly among retailers operating here in Canada. It remains mostly insulated from **Amazon.com**'s online presence and has been able to withstand the incursion of both **Wal-Mart** and **Costco**. Where many retailers have been moving to become more like supersized General Stores, Canadian Tire has taken more of an opposite approach by trying to become specialists among a handful of departments.

Last year, it revitalized its automotive department, its oldest and most iconic department after decades of "coasting" and losing market share to competitors. Canadian Tire has also been busy refreshing its home repair and sporting departments.

The sporting department in most Canadian stores appears a little bare even today but this gets offset by the massive investment in acquiring Sport Chek, Hockey Experts, Sports Experts, National Sports, Intersport, Pro Hockey Life, and Atmosphere, which gives it dominance in the sports retail market.

In terms of its dividend, it currently offers $2 per year with a yield of 1.7%. Canadian Tire hasn't been lax in boosting its dividend program either, as it has grown by 19% over the past five years. The stock closed Friday at $116.42, at the top end of its 52-week range of $90.46 to $117.41 and carries an average price target of $124.

A bargain hunter's bounty

It has been a great ride for investors of **Dollarama Inc.** (TSX: DOL). Since its IPO in 2009, the stock has gone from $19.49 to a closing price Friday of $96.89. With 917 locations and plans to increase to 1,200 in the coming years, there's plenty of growth left in the company for at least the next five years or so.

Canadians continue to embrace the lower prices offered at dollar stores as more and more are finding Wal-Mart still too expensive. Even after Dollarama abandoned its $1 universal price tag, customers continue to spend in record numbers.

As we saw in the retailer's previous quarter, where sales rose by 12% and EBITDA by 13%, these are unheard-of numbers in today's retail climate here in Canada.

Investors now have a narrow window to look into Dollarama as it has announced a uniquely implemented 2-for-1 stock split coming in November. It is different as it will be in the form of a share dividend of one common share for each issued and outstanding common share of the corporation. This stock split has not hindered the price targets for the stock as the average price target is still at $103.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Author
cameronconway