Saputo Inc. vs. Dollarama Inc.: Which Growth Story Belongs in Your Portfolio?

Description

In the Canadian market, it's somewhat difficult to find a decent growth story.

Even though Canada is a large country with a GDP of nearly $2 trillion, it seems like there are a dozen U.S. growth stories for every prominent Canadian one. I think it has more to do with perception than anything else. The U.S. has more high-flyers simply because the U.S. economy is 10 times larger than the Canadian one. These types of companies tend to get a great deal more attention in the U.S. than in Canada as well. That's just the way the media works.

Besides, there are plenty of homegrown companies that have the potential for some spectacular growth over the next decade. Let's take a closer look at a couple, **Saputo Inc.** (TSX:SAP) and **Dollarama Inc.** (TSX:DOL), to see which belongs in your portfolio.

Saputo

Saputo is one of North America's largest producers of milk and dairy products, including cheese and yogurt. The company has also expanded operations into Argentina and most recently, Australia.

Although dairy consumption really isn't a growing business in North America, it's the consolidation of the industry that's the big growth driver. There are quite a few regional dairies across the U.S. that are ripe for the picking, and dozens of small-to-medium milk producers around the world that could possibly be acquired. Saputo's management has identified opportunities in North America, Brazil, and New Zealand as potential acquisitions, but that's really just the tip of the iceberg.

One of the reasons management is so bullish on the Australia and New Zealand markets is their proximity to Asia, especially China. The average Chinese citizen consumes about 15% as much milk as the average North American or European. Considering the population of China, even modest growth in the nation's total consumption could be a huge opportunity. Although it's difficult to export fluid milk all the way from Australia to China, there are plenty of opportunities for products with a longer shelf life.

Saputo does trade at a fairly generous 25x earnings, but is expected to grow earnings to $1.76 per share for the company's fiscal 2016. That puts it at a pretty reasonable 20.6x forward earnings, especially for a company growing so quickly.

Dollarama

Dollarama has come a long way since the first location was opened in Quebec back in 1992. The company now boasts 920 stores and expects to push that up to 1,000 by the end of 2015.

Recent results continued to impress investors. Dollarama saw a 28% rise in quarterly earnings to $0.55 per share, a jump in revenue of more than 12%, same-store sales growth of nearly 6% annually, and it announced a stock split. The growth isn't over yet; analyst reports say that Canada has potential for hundreds of additional dollar stores.

Plus, the company has its eyes on a prize outside of the country. In 2013 it struck a deal to lend a hand to El Salvador-based operator Dollar City, assisting it in merchandising, inventory, and so on. Included in that deal was an option to buy control of the chain in 2019. Although it's still too early to tell, Dollar City does have the potential to expand into neighboring countries.

Mid-term growth still looks good too. Management wants to expand its store count to 1,200 over the next few years and continue to grow same-store sales by at least 4% annually. If that happens, investors in the company would likely see revenue growth in the 10-12% range. Although the stock currently looks a little expensive at nearly 30x earnings, expected growth knocks the forward P/E ratio to a more moderate 23x, which isn't so expensive for a company looking to grow as much as Dollarama.

While both Saputo and Dollarama could be good picks, our analysts have come up with a stock that we think offers an even more compelling opportunity. Check it out below.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:SAP (Saputo Inc.)

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