Canadian Tire Corporation Limited or Dollarama Inc.: Which Retailer Is the Better Buy Today?

Description

Canadian Tire Corporation Limited (TSX:CTC.A) and **Dollarama Inc.** (TSX:DOL) are two of the largest retailers in Canada, and both of their stocks represent very attractive long-term investment opportunities today. However, the laws of diversification state that we cannot own both, so let's take a closer look at the companies' first-quarter earnings results, their stocks' valuations, and their dividend yields to determine which is the better buy today.

Canadian Tire Corporation Limited

Canadian Tire Corporation is the company behind retail brands such as Canadian Tire, PartSource, Mark's, FGL Sports, and Sport Chek. Its stock has risen over 7% year-to-date, including an increase of over 4% since it announced its first-quarter earnings results on the morning of May 14. Here's a summary of eight of the most notable statistics from its report compared with the year-ago period:

1. Net income increased 16.7% to $88.3 million
2. Diluted earnings per share remained flat at $0.88, despite owning 20% less of its Financial Services business
3. Revenue decreased 2.3% to $2.51 billion. Revenue, excluding petroleum sales, increased 2.2% to $2.12 billion
4. Same-store sales increased 4.7% at Canadian Tire, 8.6% at FGL Sports, and 5.5% at Mark's
5. Gross profit increased 5.6% to $882.1 million
6. Earnings before interest, taxes, depreciation, and amortization increased 15.5% to $245.3 million
7. Income before income taxes increased 20% to $124.3 million
8. Added 11 net new stores, bringing its total store count to 1,694

At today's levels, Canadian Tire's stock trades at 16.5 times fiscal 2015's estimated earnings per share of $7.99 and 15 times fiscal 2016's estimated earnings per share of $8.77, both of which are inexpensive compared with its long-term growth rate.

In addition, Canadian Tire pays a quarterly dividend of $0.525 per share, or $2.10 per share annually, giving its stock a 1.6% yield at current levels. Investors should also note that the company has increased its annual dividend payment for five consecutive years, and its consistent free cash flow generation could allow this streak to continue for another five years at least.

Dollarama Inc.

Dollarama is the largest owner and operator of dollar stores in Canada. Its stock has risen about 24% year-to-date, including an increase of over 3.5% since it announced its first-quarter earnings results on the morning of June 10. Here's a summary of eight of the most notable statistics from its report compared with the year-ago period:

1. Net income increased 21.7% to $64.78 million
2. Earnings per share increased 28.2% to $0.50
3. Revenue increased 13% to $566.07 million
4. Same-store sales increased 6.9%
5. Gross profit increased 14.8% to $203.79 million
6. Earnings before interest, taxes, depreciation, and amortization increased 22.4% to $105.92 million
7. Operating profit increased 22.4% to $94.77 million
8. Added 73 net new stores, bringing its total store count to 972

At current levels, Dollarama's stock trades at 28 times fiscal 2016's estimated earnings per share of $2.63 and 23.8 times fiscal 2017's estimated earnings per share of $3.09, both of which are inexpensive compared with its long-term growth rate.

Additionally, Dollarama pays a quarterly dividend of $0.09 per share, or $0.36 per share annually, giving its stock a 0.5% yield at today's levels. The company has also increased its annual dividend payment for three consecutive years, and its increased amount of free cash flow could allow this streak to continue for the next several years.

Which retailer should you buy today?

After comparing the companies' first-quarter earnings results, their stocks' valuations, and their dividend yields, I think Dollarama represents the better long-term investment opportunity today. Canadian Tire's stock trades at lower forward valuations and it has a higher dividend yield, but Dollarama posted much stronger first-quarter earnings results, has been growing at a much higher rate over the last several years, and has tremendous expansion potential, giving it a narrow win in this match-up. Foolish investors should take a closer look and strongly consider making Dollarama a core holding today.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

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

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