# The Energy Sector’s Pain Is the Consumer’s Gain

## Description

The second quarter saw a 2.3% increase in consumer spending, and according to StatsCan, the GDP of the retail sector and the GDP of the arts, entertainment, and recreation sector increased nicely in June 2015 versus June 2014 at 1.4% and over 10%, respectively.



**Pain in the energy sector**

While gas prices at the pump are nowhere near as low as one would hope for given the dramatic decline in crude oil prices, they are nevertheless somewhat lower, which means some money is back in the consumers’ pockets, and more importantly, given the historic correlation between crude oil and gasoline prices, one would think that pump prices should decline more in the upcoming months, putting more money in consumers’ pockets.

Whether the stickiness of pump prices is due to price manipulation by the oil and gas companies or refinery shortages, it seems that gasoline prices should come down going forward.

So, given all this, let’s look at the companies that are benefiting and will continue to benefit from more money in consumers’ pockets.

**Canadian Tire Corporation Limited** (TSX:CTC.A)

In the latest quarter, Canadian Tire saw another increase in sales in all its retail banners, with Canadian Tire sales increasing 3.2%, FGL Sports sales increasing 4.8% (8.6% at Sport Chek), and Mark’s sales increasing 2.9%.

**Dollarama Inc.** (TSX:DOL)

Dollarama continues to fire on all cylinders. The last quarterly results saw a 14.1% increase in sales year over year, a 7.9% increase in comparable sales, and a significant increase in margins. Seventeen new stores were opened during the quarter.

But there are two things that investors should keep in mind with this company. Firstly, with the fall in the Canadian dollar, Dollarama is experiencing pressure given that most of their products are sourced from suppliers in China using U.S. dollars. The company has already passed on some of this to customers by increasing prices.

Going forward, management has stated that the company may have to think about raising its prices to as high as $4.00. Last quarter, management spoke about the need to possibly raise prices above $3.00, so this is a material increase in expectations for price increases.

Secondly, valuation remains rich at over 30 times earnings.

**Cineplex Inc.** (TSX:CGX)

In its latest quarterly report, Cineplex reported a 6.8% increase in sales and a 5.3% increase in sales year-to-date, with attendance up 2% and concession revenues per patron up 8.3%.

**A word of caution on consumer debt**

This increase in consumer spending, however, comes against the backdrop of a high-debt, low-savings rate environment, which is worrisome and certainly unsustainable. According to StatsCan, household debt to disposable income rose to 164.6% in the second quarter, up from 163% in the first quarter.



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**TICKERS GLOBAL**

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

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