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

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.

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However, the laws of diversification clearly state that we cannot buy both, so let's take a closer look at each company's earnings results in the first half of their respective fiscal years, their stocks' valuations, and their dividends to determine which is the better buy today.

Canadian Tire Corporation Limited

Canadian Tire is one of Canada's largest retailers of general merchandise, automotive products, sporting goods, and apparel. Its stock has fallen about 2% year-to-date, including a decline of nearly 8% since it announced its earnings results on the morning of August 13 for its three- and six-month periods ending on July 4, 2015. Here's a summary of eight of the most notable statistics from the first half of fiscal 2015 compared with the first half of fiscal 2014:

1. Net income increased 7.9% to $274.5 million
2. Diluted earnings per share increased 0.9% to $3.02
3. Total revenue increased 0.6% to $5.77 billion
4. Comparable-store sales increased 3.7% at Canadian Tire, 6.4% at FGL Sports, and 4.0% at Mark's
5. Gross profit increased 4.6% to $1.93 billion
6. Gross margin expanded 130 basis points to 33.5%
7. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 7.3% to $629.7 million
8. Adjusted EBITDA margin expanded 70 basis points to 10.9%

At current levels, Canadian Tire's stock trades at 15.4 times fiscal 2015's estimated earnings per share of $7.78 and 14 times fiscal 2016's estimated earnings per share of $8.56, both of which are inexpensive compared with its industry average price-to-earnings multiple of 31.2, but are slightly expensive compared with its five-year average multiple of 13.4.

In addition, Canadian Tire pays a quarterly dividend of $0.525 per share, or $2.10 per share annually, which gives its stock a 1.75% yield at today's levels. Investors should also note that the company has increased its dividend for five consecutive years.

Dollarama Inc.

Dollarama is the largest owner and operator of dollar stores in Canada. Its stock has risen over 47% year-to-date, including an increase of about 9% since it announced its earnings results on the morning of September 10 for its three- and six-month periods ending on August 2, 2015. Here's a summary of eight of the most notable statistics from the first half of fiscal 2016 compared with the first half of fiscal 2015:

1. Net income increased 31.2% to $160.25 million
2. Earnings per diluted share increased 36.7% to $1.23
3. Revenue increased 13.6% to $1.22 billion
4. Comparable-store sales increased 7.4%
5. Gross profit increased 18.3% to $454.37 million
6. Gross margin expanded 150 basis points to 37.3%
7. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 29.8% to $252.78 million
8. EBITDA margin expanded 260 basis points to 20.7%

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At today's levels, Dollarama's stock trades at 30.9 times fiscal 2016's estimated earnings per share of $2.83 and 27.1 times fiscal 2017's estimated earnings per share of $3.23, the latter of which is inexpensive compared with its industry average price-to-earnings multiple of 29 and both of which are expensive compared with its five-year average multiple of 23.9.

Additionally, Dollarama pays a quarterly dividend of $0.09 per share, or $0.36 per share annually, giving its stock a 0.4% yield at current levels. It is also important to note that the company has increased its dividend for four consecutive years.

Which retail stock is the better buy today?

After directly comparing Canadian Tire and Dollarama, I think Dollarama represents the better long-term investment opportunity today. Canadian Tire's stock trades at more attractive forward valuations and it has a higher dividend yield, but Dollarama is growing at a much higher rate as its earnings results show, giving it the edge in this match-up. Foolish investors should take a closer look and strongly consider making it a core holding today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

2. TSX:DOL (Dollarama Inc.)

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