Canadian Tire Corporation Limited and Dollarama Inc. Are Thriving Canadian Retailers

Description

Retail sales declined 0.5% in September, which was below economist expectations. More specifically, gasoline station sales fell 3.7%, which is no real surprise as pump prices are lower, and most categories declined as we head into the Christmas season.

Let's look at some retailers that stand out and are drawing consumers in, despite what could be a weak retail-sales environment going forward.

Canadian Tire Corporation Limited (TSX:CTC.A)

Canadian Tire has been going through a transformation of late. The latest quarter, the third quarter of 2015, was strong. Same-store sales at Canadian Tire increased 3.4%, while same-store sales increased 7% at the company's FGL Sports banner. Mark's same-store sales declined 0.2%, but increased 2.7%, including new stores. The transformation is ongoing and is expected to continue to drive sales and earnings growth.

Earnings growth is accelerating, and the stock is reasonably priced. It trades at 15.4 times trailing EPS and 15 times consensus expected 2015 EPS.

Indigo Books & Music Inc. (TSX:IDG)

Over at Indigo, same-store sales increased 13.6% at the physical store segment and 14.2% in the online segment. The fast-growing general merchandise segment increased a very impressive 23% year over year and now represents 30.3% of total revenue versus 27% last year. The core book business has done well again, too. The upside potential is significant as the retailer continues to add product.

The stock is trading only slightly above book value and at 40 times expected fiscal 2016 EPS, with corresponding expected earnings growth of over 40%.

Dollarama Inc. (TSX:DOL)

This is one stock price that has continued to surge higher. Dollarama has a six-month return of 25.4% and a year-to-date return of over 50%. Investors are clearly happy with this stock, but this is one that, in my view, seems priced for perfection, which always makes me nervous.

In the second quarter of fiscal 2015, Dollarama reported an impressive 14.1% increase in sales and same-store sales growth of 7.9%. Margins were up across the board and EPS increased 45.1%.

So, what's not to like? It is clear that so far the higher prices are not hurting the business. Yet I still see the risk in this because rising prices at Dollarama moves the retailer into the same space as other discount chains and leaves it competing squarely against other retailers. This changes the competitive environment for the company and the value proposition.

Another problem I see is the rich valuation, which is at 35.2 times trailing EPS and 32 times consensus expected fiscal 2016 EPS. Yes, the company has performed exceptionally well, but this is too rich a valuation for me, so I'm happy to sit on the sidelines on this one.

In summary, for exposure to the retail space, I would stick to Canadian Tire and Indigo, which are reasonably priced and have solid performances.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:DOL (Dollarama Inc.)
3. TSX:IDG (Indigo Books & Music)

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