



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

### 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 appear to represent very attractive long-term investment opportunities today.

However, in order to keep our portfolios diversified, we must own choose one, so let's take a closer look at each company's earnings results in the first 39 weeks 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 Corporation Limited is one of Canada's largest retailers of general merchandise, automotive products, sporting goods, and apparel through its many banners, including Canadian Tire, FGL Sports, and Mark's. Its stock has fallen over 3% year-to-date, including an increase of more than 4% since it announced its earnings results on the morning of November 12 for its 13- and 39-week periods ended on October 3, 2015.

Here's a summary of 10 of the most notable statistics from the first 39 weeks of fiscal 2015 compared with the same period in fiscal 2014:

1. Net income attributable to owners of Canadian Tire Corporation increased 5.2% to \$434.2 million
2. Diluted earnings per share increased 9% to \$5.62
3. Total revenue increased 1% to \$8.9 billion
4. Same-store sales increased 3.6% at Canadian Tire, 6.8% at FGL Sports, and 2.6% at Mark's
5. Gross profit increased 4.4% to \$2.96 billion
6. Gross margin improved 100 basis points to 33.2%
7. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 11.3% to \$1.04 billion
8. Adjusted EBITDA margin improved 100 basis points to 11.7%
9. Repurchased 2.54 million shares for a total cost of approximately \$322.3 million
10. Weighted-average number of common and Class A non-voting shares outstanding decreased

3.5% to 77.19 million

At today's levels, Canadian Tire's stock trades at 14.7 times fiscal 2015's estimated earnings per share of \$8.04 and 13.7 times fiscal 2016's estimated earnings per share of \$8.59, the latter of which is inexpensive compared with its trailing 12-month price-to-earnings multiple of 14.6, but both of which are expensive compared with its five-year average multiple of 13.4.

In addition, Canadian Tire pays a quarterly dividend of \$0.575 per share, or \$2.30 per share annually, giving its stock a 1.9% yield. Investors should also note that the company has increased its dividend for five consecutive years.

### **Dollarama Inc.**

Dollarama Inc. is the largest owner and operator of dollar stores in Canada. Its stock has risen over 34% year-to-date, including a decline of over 9% since it announced its earnings results on the morning of December 9 for its 13- and 39-week periods ended on November 1, 2015. Here's a summary of 10 of the most notable statistics from the first 39 weeks of fiscal 2016 compared with the same period in fiscal 2015:

1. Net earnings increased 33.4% to \$260.33 million
2. Diluted net earnings per common share increased 38.6% to \$2.01
3. Revenue increased 13.4% to \$1.88 billion
4. Comparable-store sales increased 7.1%
5. Gross profit increased 20% to \$720.33 million
6. Gross margin improved 210 basis points to 38.2%
7. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 31.6% to \$407.59 million
8. EBITDA margin improved 300 basis points to 21.6%
9. Repurchased 4.19 million shares for a total cost of approximately \$335.2 million
10. Weighted-average number of diluted common shares outstanding decreased 3.8% to 129.53 million

At today's levels, Dollarama's stock trades at 27.3 times fiscal 2016's estimated earnings per share of \$2.92 and 24.6 times fiscal 2017's estimated earnings per share of \$3.24, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 28.7 and its five-year average multiple of 42.

Additionally, Dollarama pays a quarterly dividend of \$0.09 per share, or \$0.36 per share annually, giving its stock a 0.45% yield. Investors must also note that the company has raised its annual dividend payment for four consecutive years.

### **Which retailer is the better buy today?**

Here's how each company ranks when comparing their earnings results, their stocks' valuations, and their dividends:

Metric	Canadian Tire	Dollarama
Earnings Strength	2	1

Forward Valuations	2	1
Dividend Yield	1	2
<b>Average Ranking</b>	<b>1.67</b>	<b>1.33</b>

As the chart above depicts, Canadian Tire has a higher dividend yield, but Dollarama has reported stronger earnings results in the first 39 weeks of its fiscal year and its stock trades at more attractive forward valuations, giving it an easy win in this match up. All Foolish investors should take a closer look and strongly consider initiating positions today.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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

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