



My Top 3 Retail Stock Picks for 2016

Description

The Canadian retail industry has been a source of consistent growth over the last few years, but it is highly competitive and constantly evolving, so it can be very difficult to find the right stock to buy. Well, I have done my homework and selected my top three retail stock picks for 2016, so let's take a closer look at each to determine which would be the best fit for your portfolio.

1. Dollarama Inc.

Dollarama Inc. ([TSX:DOL](#)) is the largest owner and operator of dollar stores in Canada with over 1,000 stores that span all 10 provinces.

At today's levels, its stock trades at just 27.4 times fiscal 2016's estimated earnings per share of \$2.92 and only 24.7 times fiscal 2017's estimated earnings per share of \$3.24, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 42 and its sub-industry average multiple of 29.

With the multiples above and its estimated 18.5% long-term earnings growth rate in mind, I think Dollarama's stock could consistently trade at a fair multiple of about 35, which would place its shares upwards of \$113 by the conclusion of fiscal 2017, representing upside of more than 41% from current levels.

In addition, Dollarama pays a quarterly dividend of \$0.09 per share, or \$0.36 per share annually, giving its stock a 0.45% yield at today's levels. It is also important to note that it has raised its annual dividend payment for four consecutive years.

2. Loblaw Companies Limited

Loblaw Companies Limited ([TSX:L](#)) is Canada's food and pharmacy leader, and it is the country's largest retailer. It currently operates over 2,400 stores under its many retail banners, including Loblaws, Shoppers Drug Mart, No Frills, Wholesale Club, and Real Canadian Superstore.

At current levels, its stock trades at just 18.8 times fiscal 2015's estimated earnings per share of \$3.49

and only 16.4 times fiscal 2016's estimated earnings per share of \$4.00, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 159.7 and its sub-industry average multiple of 26.7.

With the multiples above and its estimated 14.1% long-term earnings growth rate in mind, I think Loblaw's stock could consistently trade at a fair multiple of at least 20, which would place its shares around \$80 by the conclusion of fiscal 2016, representing upside of more than 21% from today's levels.

Additionally, the company pays a quarterly dividend of \$0.25 per share, or \$1.00 per share annually, giving its stock a 1.5% yield at current levels. It is also worth noting that it has raised its annual dividend payment for four consecutive years.

3. Sleep Country Canada Holdings Inc.

Sleep Country Canada Holdings Inc. ([TSX:ZZZ](#)) is the leading retailer of mattresses and sleep accessories in Canada, and it is the company behind the Sleep Country and Dormez-vous retail banners. Dormez-vous is the largest retailer of mattresses in Quebec, and Sleep Country Canada is the largest retailer of mattresses in the rest of Canada.

At today's levels, its stock trades at just 16 times fiscal 2015's estimated earnings per share of \$1.09 and only 15 times fiscal 2016's estimated earnings per share of \$1.16, both of which are inexpensive given its sub-industry average multiple of 25.1 and the sector average multiple of 18.4. We currently do not have historical averages for Sleep Country, because it only went public on July 16, 2015.

Due to the fact that it is the only publicly traded, pure-play mattress company in Canada and with its estimated 6.6% long-term earnings growth rate in mind, I think Sleep Country's stock could consistently trade at a fair multiple of about 20, which would place its shares upwards of \$23 by the conclusion of fiscal 2016, representing upside of about 32% from current levels.

In addition, the company declared its first quarterly dividend of \$0.13 per share on November 3, which is equal to \$0.52 per share annually, and this gives its stock a 3% yield at today's levels.

Which of these stocks is your top retail pick?

Dollarama, Loblaw, and Sleep Country are my top three retail stock picks for 2016. All Foolish investors should take a closer look at each and strongly consider initiating positions in one of them over the next couple of trading sessions.

CATEGORY

1. Investing
2. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

2. TSX:L (Loblaw Companies Limited)

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