

Triple Your Money With These Large Caps

Description

If you have at least 10 years for your portfolio to grow, adding some high-growth stocks can help boost your returns.

I believe **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) and **Alimentation Couche-Tard Inc.** (TSX:ATD.B) are excellent candidates for annual returns of 13% or higher. Here's why.

Canadian Pacific Railway

The leading railroad company operates in an oligopoly that limits competition and improves profitability. Most recently, CP's first-quarter operating margin was 41%. Its close competitor, **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)), also had the same operating margin.

In 2014 and 2015, CP's return on equity (ROE) was 23.2% and 26%, respectively, while CN's was 24% and 24.9%.

However, soft demand has led to lower ROE. Comparatively, CP has fared better than CN so far, as CP's first-quarter ROE was 10.7%, while CN's ROE was 5.3%.

CP is also trading at a lower valuation, so it's a better deal than CN as an investment today.

At about \$163 per share, CP trades at a multiple of 15.6 with expected earnings growth of more than 13% per year for the next three to five years.

On the other hand, at \$75 per share, CN trades at a multiple of 16.9 with expected earnings growth of more than 10% per year in the medium term.

Alimentation Couche-Tard

Couche-Tard is North America's largest independent convenience stores operator in terms of the number of company-operated stores. It had over 7,900 stores at the end of January.

It's also a leader in convenience store and road transportation fuel retail in Scandinavian and Baltic countries with a meaningful presence in Poland and Russia. At the end of January it had over 2,200 stores in Europe.

On top of that, it has a franchising or licensing relationship with about 1,500 additional stores under the Circle K banner in other countries or regions in the rest of the world.

Couche-Tard is a successful acquisition and integration story. Its first store was opened in 1980 in Quebec. Then it consolidated the Canadian convenience store market in the 80s to 90s. And it entered the U.S. market in 2001 by acquiring 225 Bigfoot stores in the U.S. Midwest.

This year it acquired Topaz, the leading convenience store and fuel retailer in Ireland, which consists of 444 stores and will rebrand under the Circle K banner.

Conclusion

A \$10,000 investment in CP 10 years ago would have turned into \$35,984, an annualized return of 13%. A \$10,000 investment in CN 10 years ago would have turned into \$35,269, an annualized return of 12.8%. However, as noted before, the earnings growth for CP is expected to be higher. Coupled with a lower multiple, CP is a better value today.

A \$10,000 investment in Couche-Tard 10 years ago would have turned into \$70,342, an annualized return of 20.5%.

Couche-Tard is working on integrating the Topaz acquisition. Furthermore, this year Couche-Tard also signed an agreement with **Imperial Oil** to acquire 279 Esso-branded Canadian fuel and convenience sites, which are located in Ontario and Quebec. These developments should help Couche-Tard continue its growth trajectory.

If the earnings-growth estimate of 13% a year for CP or Couche-Tard materialize, a \$10,000 investment today could turn into \$18,424 in five years and \$33,945 in 10 years, assuming their multiples remain constant.

In reality, the growth rate for CP is likely to be volatile. For example, in the past five years its annual earnings per share (EPS) growth ranged from -12% to 48%.

On the other hand, Couche-Tard was more stable. Its annual EPS growth ranged from 17-28% in the past five years. Any subsequent acquisitions will likely boost its growth rate.

Both CP and Couche-Tard are quality companies that long-term investors can buy today and buy more on dips.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:CP (Canadian Pacific Railway)

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