



3 U.S. Stocks That Love Canada

Description

The news that Tim Hortons' parent, **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)), is acquiring **Popeyes**, a U.S.-based chicken restaurant for US\$1.7 billion, spread quickly February 21.

Investors love Canadian stocks that take on the U.S. market and succeed.

While Restaurant Brands International isn't really Canadian — it's majority-owned by Brazilian private equity firm 3G Capital — the fact that its headquarters are in Oakville, Ontario, makes it an honorary citizen.

The deal got me thinking about the reverse situation in which U.S. companies do business here in Canada and love the Great White North as a result of their success here.

These three U.S. stocks love Canada — and you should too.

TJX

TJX Companies Inc. ([NYSE:TJX](#)), the Massachusetts-based off-price retail conglomerate which operates three brands in Canada, just announced 3% overall same-store sales growth in the fourth quarter across its entire 3,812-store network; in fiscal 2017, its same-store sales growth was a robust 5% over the same period last year.

Certain areas of retail might be suffering in both Canada and the U.S., but TJX surely isn't.

Here in Canada, the news is even better for the company. TJX Canada — with 245 Winners, 101 Home Sense, and 41 Marshalls locations — had Q4 and fiscal 2017 same-store sales growth of 8% and 12%, respectively.

TJX entered the Canadian market back in 1990 when it bought Winners, then a five-store off-price apparel chain. It now generates US\$413 million in profit from US\$3.2 billion in revenue.

With off-price clothing expected to be popular with Canadians for the foreseeable future, TJX will

continue to benefit from our patronage — as will its stock.

L Brands

Although **L Brands Inc.** (NYSE:LB) doesn't break out its Canadian revenue from its U.S. revenue, a few quick calculations will give us a pretty good idea.

L Brands is the Ohio-based holding company that owns Victoria's Secret, Pink, Bath & Body Works, La Senza, and Henri Bendel.

The company first entered the Canadian market in 2007 when it acquired home-grown lingerie retailer La Senza. It followed that up in the fall of 2008 by opening a number of Bath and Body Works locations; a year later, it opened its first Victoria's Secret Pink location, and several months after that, it opened the first Victoria's Secret store in Canada.

L Brands paid \$710 million for La Senza more than a decade ago and has gone on to invest heavily in the Canadian market.

As of the end of October 2016, there were 46 Victoria's Secret and Pink stores in Canada, 102 Bath and Body Works locations, and 128 La Senza stores (all but three in Canada).

The average Victoria's Secret and Bath and Body Works stores do US\$5.3 million and US\$1.9 million, respectively in annual sales. The company doesn't provide La Senza's numbers, but they're likely no more than US\$500,000 annually.

Overall, I estimate that L Brands's Canadian revenues come to US\$500 million annually — not quite what TJX is generating, but that's coming from a much smaller footprint.

Costco

It's hard to believe that **Costco Wholesale Corporation** ([NASDAQ:COST](#)) has operated stores in Canada for more than 30 years; it opened its first Canadian location in 1985 in Burnaby, B.C.

Today, it has 94 locations coast to coast, generating huge revenue numbers for such a tiny country. In its fiscal year ended August 28, 2016, Costco's Canadian business generated US\$778 million in operating income from US\$17.0 billion in revenue, an operating margin of 4.6% and 190 basis points higher than in the U.S.

Even more compelling is the fact that in the U.S., Costco's per-capita revenue is US\$247 compared to US\$472 in Canada. We as a nation spend 90% more per capita at Costco than our friends to the south.

Costco's business model is based on low margins with profits coming from its annual memberships. A 2014 statistic from Seeking Alpha suggests one out of every three Canadians has a Costco membership.

Bottom line

If I could own only one of these stocks, I'd probably go with Costco. That said, all three are retail superstars and are worth considering as part of any U.S. equity portfolio.

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2. NYSE:QSR (Restaurant Brands International Inc.)
3. NYSE:TJX (The TJX Companies, Inc.)
4. TSX:QSR (Restaurant Brands International Inc.)

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