Are These 2 Great Companies Currently Overvalued?

Description

To achieve long-term investing success, Foolish investors know they must acquire shares in companies positioned for long-term success with strong cash flows. With some fundamental investing knowledge and a bit of work, the average investor can identify these types of companies. However, the trick is determining when to buy shares in them.

As Foolish Investors know, the greatest returns are realized when you buy stock in fantastic companies at a discount. If investors overpay for a stock, they will have to wait for the company's earnings to catch up to the current valuation, limiting the growth potential in the stock price. In addition, by buying stocks at a discount, you create a margin of safety for your investments.

Dollarama Inc. (TSX:DOL) and **Saputo Inc.** (TSX:SAP) are two great companies, but do the current valuations justify a buy?

Here's a quick look at both companies.

Dollarama

One of Canada's favourite retailers, Dollarama has impressively generated significant cash flows by only selling items up to a fixed price point of $4. Over the past three years, the company's earnings have grown 28.77% annually.

However, the significant earnings growth has also caused a run-up in the stock price. The stock's current price-to-earnings and price-to-free cash flow ratios are 36.7 and 41.5, respectively. Both of these key metrics are above the stock's five-year averages of 27 and 34, meaning investors should wait for another opportunity to acquire this stock.

Saputo

Saputo is the largest dairy processor in Canada and one of the top 10 in the world. The stock has provided strong returns to investors with a compound annual growth rate of 17.48% since its IPO in 1997.

However, the company's stock price isn't justified based on its earnings. The company currently possesses a price-to-earnings ratio of 26, which is above its five-year average of 23 and sector average of 21. Although the company is the clear industry leader in Canada, there is no point in overpaying for a stock with a dismal yield of 1.29% at this time.

Foolish bottom line

Obviously, the companies mentioned above are great companies. However, Foolish investors need to be patient when adding stocks to their portfolios. It requires discipline to wait for a bargain stock price, but it will certainly pay off in the long run.

That being said, I don't think any investor should sit on the sidelines until a particular stock is at a discount. Investors should be continually putting their money into the market. There are always opportunities available in the stock market, so put the extra work in to find them until the other stocks on your radar fall below their intrinsic value.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:SAP (Saputo Inc.)

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