2 Heavyweight Stocks That Should Be on Your Radar

Description

Dollarama Inc. (TSX:DOL) and **Canadian Pacific Railway Limited** (TSX:CP)(NYSE:CP) are two Canadian companies will market caps well into the billions, and both are heading in different directions of late.

Does Dollarama still provide good value for prospective buyers?

Dollarama is the top Canadian dollar retail store. The share price has seen growth of over 280% over five years. In 2017, the stock has increased 25% and has remained firmly above the $120 mark since the late spring. The company announced a quarterly dividend of $0.11 per share, representing a 0.36% yield. As such, the main appeal of Dollarama is as a growth stock, and an expensive one at that.

Analysts still have a positive outlook for Dollarama stock. It holds an average price target north of $130. The company has a market cap of $14 billion and a P/E of $31.88. Dollarama released its quarterly earnings on June 7 and reported earnings of $0.82 per share. The next earnings report is expected in early September.

With CP Rail in a slump, should investors buy the dip?

CP Rail has plummeted 10% since reaching an all-time high of $218.78 in mid-May. The company announced an 8% increase in shipping volumes in its Q2 2017 earnings report in July. Revenue was up 13% from the same period last year to $1.6 billion. Net income shot up 46% to $480 million — $3.27 per diluted share. CP Rail boasted that operating ratio improved by 330 basis points to 58% from Q2 2016.

There is some concern that the rise of the Canadian dollar, which hit US$0.80 for the first time in over a year on the back of the Bank of Canada’s rate decision, may hurt manufacturers. In an interview on July 19, CP Rail CEO Keith Creel spoke on the subject: “The dollar obviously affects our earnings,” he said. “There are puts and takes with the dollar … We will know by the end of the third quarter. By that point we will understand the effects of the strengthening Canadian dollar as well.”

Though the fundamental impacts of the strengthening Canadian dollar are yet to be seen in CP Rail’s earnings, the impact on the stock has been immediate. Since the rate decision on July 12, the share price has seen a 7% drop. As of close on July 26, the stock sat at $196.53 — down 1.25%.

Which stock should investors go with right now?

Dollarama stock continues to show tremendous strength heading into the latter half of 2017. Analysts expect positive earnings to come, and it has held steady in spite of economic headwinds that have swept across other sectors.

CP Rail offers a potential buy-low opportunity. The Canadian dollar has maintained a 20-year average of $0.82 to the U.S. dollar. Rising rates to come in the U.S. could point to a potential ceiling in rise of the Canadian dollar that would bode well for CP Rail stock.

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