Better Retail Stock in 2018: Canadian Tire Corporation Limited vs. Dollarama Inc.

Description

In the Statistics Canada GDP report for September 2017, retailer trade fell 0.5%. This represented the third straight month that the sector reported a decline. In a recent article, I'd discussed retail stocks that were winners or losers in 2017. Black Friday and Cyber Monday saw retailers report massive online sales, which likely telegraphs another transformative year for a fast-evolving industry.

Let's take a look at two stocks today that have performed well in 2017 and determine which has the higher upside in 2018.

Canadian Tire

Canadian Tire Corporation Limited (TSX:CTC.A) is a Toronto-based retailer specializing in hardware, automotive, sports and leisure, and home products. Sales at building material and garden equipment and supplies dealers were up 2.1% in September. The rise offset a similar rate of decline in August. Canadian Tire stock has climbed 16.6% in 2017 as of close on December 6.

Canadian Tire released its third-quarter results on November 9. The company saw consolidated retail sales rise 5.1% to $179.5 million, and consolidated revenue jumped 5.6% to $175.5 million. Same-store sales were up 4.7%, and its Mark's retail stores reported sales growth of 5.2%. Income before income taxes climbed 4.3% to $100.2 million. The company also declared a dividend of $0.90 per share, representing a 2.2% dividend yield at offering.

Dollarama

Dollarama Inc. (TSX:DOL) is a Montreal-based dollar store retail chain — the largest operating in Canada today. In a late September, article I'd covered the growth of dollar store chains in North America. Dollar store chains have experienced impressive growth in Canada and the U.S. following the 2007-2008 Financial Crisis, attracting a much more diverse social and economic strata than before.

Dollarama stock has climbed 52.2% in 2017. However, shares have plummeted 10% since it reached an all-time high of $166.62 in late November. Dollarama released its fiscal 2018 third-quarter results on December 6. Sales jumped 9.7% to $810.6 million, and comparable store sales increased 4.6%.

Operating income reported growth of 18.8% to $207.3 million.

The company also released its forecast for fiscal 2019. Dollarama projects comparable store sales growth between 4% and 5%. The report also commented on the upcoming minimum wage hike in Ontario, which will impact the administrative expenses of 41% of Dollarama locations. The company predicts that competitors will absorb the hike, and it does not foresee a significant increase in product price.

Which stock is the better buy right now?

Canadian Tire stock is a tempting addition after its strong third-quarter report. It also offers a solid dividend yield of 2.2%. However, a record year for real estate and automobile sales in 2017 could telegraph a correction next year. For housing, this appears to be a certainty with new mortgage rules forthcoming, and gradual interest rate hikes will likely apply pressure to an auto industry dependent on loose credit. Canadian Tire is dependent on the building supply and automotive retail industry, which could spell trouble in 2018.

The recent correction in Dollarama stock makes it an attractive target heading into 2018. It has reported impressive results in quarter after quarter, and leadership is confident that the dollar store chain will be unimpeded by the Ontario minimum wage hike.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/24
Date Created
2017/12/10
Author
aocallaghan