As Job Growth Soars, Invest in These Top Retailers

Description

The new year has started with a bang, as the most recently released job numbers blew away expectations for the second time in a row, offering confirmation that the economy remains strong.

Canada added 79,000 jobs in December — a number that far surpassed expectations and sent the unemployment rate to 5.7%, the lowest rate since 1979. This is highly positive.

So, where do we go in this environment?

Well, this strength in job numbers will certainly be reflected in consumer spending.

Canadian Tire Corporation Limited (TSX:CTC.A), which has seen its shares rise 70% in the last three years and 20% in the last year, continues to reap the rewards of its transformation that began in 2014. And with the strong macro backdrop, we can expect this to continue.

As a bonus, this capital appreciation is accompanied by a dividend that was increased by 38% last year, giving the stock a dividend yield of 2.13%.

Financial targets for the next three years include annual consolidated same-store sales growth of 3% (excluding petroleum), annual diluted EPS increase of 10%, and a return on invested capital on the retail business of 10% by the end of 2020.

Indigo Books & Music Inc. (TSX:IDG) in another top retailer that will continue to thrive as the economy continues to steam ahead.

The retailer continues to experience strong same-store sales growth, as it continues to increase its merchandise category at its stores, and as it continues to see rapid growth in online sales.

The general merchandise category continues to be very strong, with a 15% increase in sales in the first quarter of fiscal 2018, and it now represents 36.4% of total sales versus 34.1% in the same quarter last year.

Online sales now represent 14.6% of total sales compared to 12.9% of sales in the same period last year, a reflection of the continued outperformance of the company's online segment.

Clearly, the strongest retail channel was, once again, the company's online channel, which saw a 20.5% increase in sales in the first quarter of fiscal 2018. As a point of comparison, **Amazon.com, Inc.** (NASDAQ:AMZN) posted a 25% increase in sales in the latest quarter.

Lastly, with big opportunity awaiting **Sleep Country Canada Holdings Inc.** (TSX:ZZZ) after Sears's failure, these shares are trading at very attractive levels of 22 times this year's expected EPS and 19 times next year's expected EPS.

These estimates have upside due to the strong consumer and the fact that Sears, what was once the biggest mattress retailer, is no longer in the picture.

Sleep Country's shares are down 20% from highs of last summer and represent a bargain at these levels.

In conclusion, investors are faced with the reality of stronger than expected employment numbers, which should translate into higher than expected consumer spending and outperformance of select top-quality retail stocks. Now is a good time to add these positions to your portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:IDG (Indigo Books & Music)
4. TSX:ZZZ (Sleep Country Canada)

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