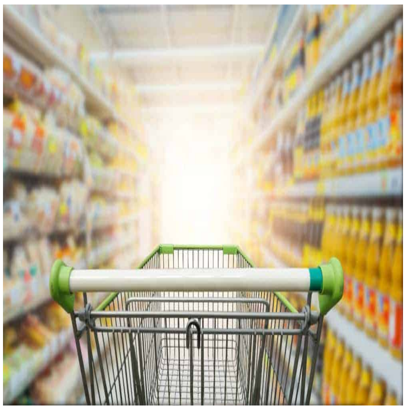

Which of These 2 Canadian Retail Stocks Should Be Left on the Shelf?

Description

Consumer defensive stocks are getting talked up at the moment, no doubt spurred by whispers of a downturn. The following two Canadian stocks are getting a lot of air time as a result. But which one is a buy, or should you consider adding both of them to your investment portfolio?

Loblaw Companies Ltd. (TSX:L)

Discounted by 34% compared to its future cash flow value, Loblaw is looking nifty on P/E, with an estimated of 16.6 times earnings: that's good for Canada, though not so good for Canadian retail.

On to PEG; we can see a lack of forecast growth data (indicative of, you guessed it, a lack of forecast growth), making this multiple null and void. Check that P/B of 2.1 times book, though. Do you feel like buying a retail stock at twice what it's worth?

An expected -27.9% annual growth in earnings doesn't help things. Yes, that's a minus sign in front of that number. Perhaps those analysts calling for a climb-down in Canadian retail stocks were on to something. A dividend yield of 1.55% goes some way to sweetening the deal, though it doesn't feel like quite enough.

Saputo Inc. (TSX:SAP)

Overpriced by around 15% compared to its future cash flow value, Saputo is looking a little worse for wear today. Its P/E of 20.5 times earnings further indicates overvaluation — not a great start for Saputo , so let's see what the rest of its multiples are up to.

A PEG of 20.6 times growth shows Saputo continuing to fall down on fundamentals. Is there some good news hiding in Saputo's P/B ratio? Sadly, no; this beaten-up stock has a P/B of 3.6 times book.

Comedians like to say that the only sound worse than nobody clapping is one person clapping. That must be how Saputo feels right now, with its 1% expected annual growth in earnings. A dividend yield of 1.42% isn't much to feel jolly about, either.

The bottom line

These aren't stocks for growth investors — let's put it that way. While worse multiples do exist on the TSX, the two stocks covered here should be at the forefront of Canadian retail, but, unfortunately, they leave quite a lot to be desired at the moment.

What both stocks do have going for them, though, is past performance and overall health in terms of assets. Saputo holds lower debt than Loblaw and wins in this regard. They both pay a small dividend, too, which is something; Loblaw takes the lead slightly on this aspect.

The other thing to bear in mind is the real-world functionality of these stocks: Loblaw has a canny and progressive management style, while Saputo is a dairy market leader. If you're already invested in Saputo, it might make sense to stay there and sweat it out, but value investors may want to wait for a dip before taking a bite. Meanwhile, Loblaw is still a buy.

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2. TSX:SAP (Saputo Inc.)

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vhetherington