



Which Is the Better Buy: Loblaw Companies Ltd. (TSX:L) or Alimentation Couche-Tard Inc. (TSX:ATD.B)?

Description

Many investors are concerned about retail stocks because of the risk involved, as many big names have failed in recent years, which has called into question the longevity of the companies that remain in the industry. However, I'm not quite convinced that all retail stocks are doomed, and today I'm going to look at two of the bigger stocks in the industry.

Loblaw Companies Ltd. ([TSX:L](#)) owns some of Canada's most popular grocery stores, which is a segment of the industry that still seems to have staying power. When it comes to produce, fruits and vegetables, many consumers like to see and inspect their purchases.

While buying from an online retailer like **Amazon.com, Inc.**, might seem like a convenience, consumers may not be ready for such a drastic change in buying experience, especially when it comes to their groceries.

Another company that I believe has a strong future is **Alimentation Couche-Tard Inc.** (TSX:ATD.B), which has a big presence in many parts of the world. Convenience is a big part of our day-to-day lives, and while we might see same-day delivery from stores and online retailers in the coming years, it's still quicker to go to a convenience store across the street.

Which stock has more potential?

To get an idea of which stock has more growth, it's important to consider how the two companies have done in recent years.

Couche-Tard has seen its sales grow by more than 35% last year as it has grown [via acquisitions](#). Prior to that, the company had struggled to generate any noticeable increases in sales, and even saw declines in some years.

Loblaw has also struggled, and since 2014, its sales have increased by just 10%. The company is more significantly impacted by online retailers, and without international expansion to help grow its financials, it's certainly more of a challenge for Loblaw to achieve strong sales growth.

Looking ahead, both companies will face challenges as rising minimum wages will put pressure on prices, and that could impact both their top and bottom lines. In a saturated Canadian market, it's going to be more of a challenge for Loblaw to generate much growth, while Couche-Tard still has great opportunities to grow beyond its domestic borders.

Which stock is the better value?

It isn't just outlook for the future that investors consider, it's important to also see where the stock is valued today, because that will be key in determining whether it is a good buy.

Loblaw currently trades at 20 times its earnings and twice its book value. By comparison, Couche-Tard investors that buy today will have to pay 16 times the stock's earnings and 3.4 times its book value.

Bottom line

All signs point to Couche-Tard being a better buy. Loblaw is likely still recovering from the stigma of the [price-fixing scandal](#), even if it did try to do the right thing. It also has more limited options for future growth. Couche-Tard, however, is better priced, with more avenues to grow.

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