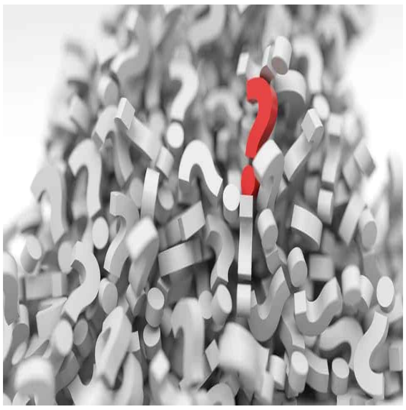

Should You Buy Dollarama Inc. (TSX:DOL) or Canadian Tire Corp. (TSX:CTC.A) Stock Today?

Description

Retail companies are either thriving or dying, depending on their sector, and investors are wondering which names might be safe picks to add to a balanced portfolio.

Let's take a look at two Canadian brick-and-mortar companies that have continued to grow, despite the broader challenges in the retail space.

Dollarama (TSX:DOL)

Dollarama continues to deliver steady results, as Canadians flock to the discount-goods store to pick up household odds and ends, and a few snacks to boot.

For the quarter ended April 29, Dollarama reported sales of $756.1 million, representing a 7.3% increase over the same period last year. Gross margins remained unchanged at 37.6% and diluted net earnings per share jumped 12.2%

The company opened 10 new stores in the quarter and maintained its guidance for 60-70 new locations in the fiscal year. At the time of the Q1 report, the company had 1,170 stores. Eventually, Dollarama should hit a saturation point, but that's likely well down the road. Management has done a good job of keeping the store offerings interesting, and consumers don't seem to mind the fact that goods now cost up to $4.

Dollarama pays a small dividend, but it's also buying back up to 5% of the outstanding common stock through June 19, 2019, under the current normal course issuer bid.

The stock has enjoyed a nice rebound in August, bouncing off the 2018 low near $47 to $50.50 per share, but it still trades about $6 below the high it hit in January. Investors who have been looking for a good entry point might want to step in ahead of the holiday season.

Canadian Tire (TSX:CTC.A)

Canadian Tire is having a busy year. The company closed its acquisition of European sportswear company Helly Hansen in July as part of an international expansion plan. In addition, Canadian Tire rolled out its Triangle Rewards program, which extends the famous Canadian Tire Money plan to allow members to earn points at all of the company's subsidiaries and gas stations.

The introduction of a very competitive credit card offering in conjunction with the Triangle program has the potential to drive significant growth in the financial services side of the business. Canadians love their loyalty points programs, and the no-fee card currently gives 4% cash back for online and in-store purchases at the company's portfolio of retail locations, 3% cash back on participating grocery store purchases, $0.05 back per litre on fuel at Canadian Tire service stations, and 1% back on everything else.

In the Q2 2018 earnings report, the company said it had already surpassed two million active credit card accounts. The second-quarter numbers came in a bit weak, sending the stock down from $182 per share to $162. At the time of writing, the shares trade at $165.

Canadian Tire pays a quarterly dividend of $0.90 per share for a yield of 2.2%.

Is one more attractive?

Dollarama and Canadian Tire both look attractive after the pullbacks in the share prices. If you only buy one, I would probably make Canadian Tire the first choice. The financial services side of the business could see strong growth in the coming years, and the addition of Helly Hansen gives the company a foothold in the international market for quality outdoor sports clothing and workwear.

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