Can These Retail Darlings Bounce Back in the Fall?

Description

Statistics Canada released retail numbers for the month of July on September 21. Retail sales rose 0.3% to $50.9 billion on the back of higher sales at food and beverage stores and gasoline stations. Sales increased in eight of 11 sub-sectors, which represented over 50% of total retail sales. However, without the impacts of price increases, retail sales in volume terms were down 0.1%.

The final point may be a concern for the two companies we will focus on today. It is no secret that retailers have struggled over the course of this decade. However, some companies have managed to thrive in this environment. Are new trends a threat to companies that have managed to stave off the so-called retail apocalypse?

Canadian Tire (TSX:CTC.A)

Canadian Tire is a Toronto-based retailer which provides a broad array of products, including home goods sporting equipment, apparel, automotive parts and accessories, and others. Shares of Canadian Tire have dropped 5.8% in 2018 as of close on September 26. The stock is still up 2.2% year over year.

Canadian Tire stock is up over 200% over the past decade. Its strong Canadian footprint has contributed to its long-term success and it has also scooped up solid acquisitions in recent years. Like other retailers, Canadian Tire has also moved to expand its online offerings. The company released its second-quarter results on August 9.

Consolidated comparable sales rose 1.6% year over year in the second quarter, excluding petroleum. Mark’s retail sales also rose 1.6%, while FGL saw sales drop 1.9% from the prior year. The financial services segment posted receivable growth of 10.4% and reached two million active credit card accounts. The board of directors declared a dividend of $0.90 per share, representing a 2.1% dividend yield.

The company is in a transition period after its acquisition of the Norwegian brand Helly Hansen. It also launched its Triangle Rewards loyalty program in the quarter. Both moves are expected to bolster growth going forward. Canadian Tire could be an attractive buy-low opportunity while also boasting a solid dividend.

Dollarama (TSX:DOL)

Dollarama stock has plunged 21.4% in 2018 so far. Shares are now down 9% year over year. It released its second-quarter results on September 13.

Analysts soured on the news that comparable store sales fell 2.6% year over year compared to a 6.1% pace set in the prior year. However, sales were still up 6.9% year over year and EBITDA was 26% of sales compared to 25.7% in Q2 2017. This may be a case where Dollarama's historical strength weighed on shares due to an uncharacteristically slow quarter.

There are some trends for dollar stores in North America that may give investors pause. The U.S.-based **Dollar Tree** also reported sluggish comparable store sales in its most recent quarterly report. This may indicate that growth in dollar store retail is softening, especially as higher end retailers experience a bump in a strong economy. This is a development worth monitoring for investors who are currently holding Dollarama stock.

CATEGORY

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2. TSX:DOL (Dollarama Inc.)

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