Multiples Are Falling on These Stocks, But Is It Justified or a Buying Opportunity?

Description

The price of a stock price is a function of its fundamental performance, its outlook, and the multiple that investors are willing to ascribe to it.

With the **TSX/S&P Composite Index** (TSX:^OSPTX) declining 9.5% from July highs, we have seen a general decrease in risk tolerance, as investors rethink the multiples they are willing to pay for stocks.

Metro Inc. (TSX:MRU) stock has declined 9% since its highs this summer, despite continued strong results and dividend increases, in a case of multiple contraction despite continued strong performance.

To illustrate my case, 2018 earnings are expected to be 6.3% higher than 2016 earnings, and the annual dividend was increased by 16% in 2017 to $0.65 per share and by 10.8% earlier this year to the current $0.72 per share.

Metro's P/E multiple has come down one and a half points to 16.4 times.

With an $11 billion market capitalization and a 1.74% dividend yield, Metro has been and will likely remain a story of consistency, stability, and shareholder wealth creation.

Waste Connections Inc. (TSX:WCN)(NYSE:WCN) stock is down 7.4% since September, as it too falls victim to general market malaise.

But although investors are not willing to pay as high a multiple for it, this stock continues to beat expectations, increase its dividend, and create shareholder value.

Hence making it a very attractive stock despite recent weakness.

Waste Connections remains in good shape to capitalize on the many M&A opportunities that exist, and this, along with pricing strength, will help drive continued growth.

It is a solid, well-run company that is poised to continue to do well even in a weak economy, due to the defensive nature of its business.

Dollarama Inc. (TSX:DOL) stock had been drifting since the end of 2017, in what I believe started as investors general feeling a little more risk averse and unwilling to pay its historically premium P/E multiple, which got up to more than 35 times at one point.

And then, the company reported slower-than-expected same-store-sales growth and the stock got killed. Down 24% in the last month.

And although the current multiple of 22 times this year's expected earnings is certainly one that I could live with more easily, questions regarding the company growth going forward remain.

A lot has changed for Dollarama, and the stock's momentum is clearly on the downside.

With what I believe is a concerning consumer environment, with rising interest rates and record-high debt levels, I would be hesitant to buy this stock at this point.

I would continue to watch it for a better entry point once the downward momentum stabilizes, but I would be in no hurry to buy.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:WCN (Waste Connections)
2. TSX:DOL (Dollarama Inc.)
3. TSX:MRU (Metro Inc.)
4. TSX:WCN (Waste Connections)

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