2 Growth Stocks: 1 Is More Attractive Today

Description

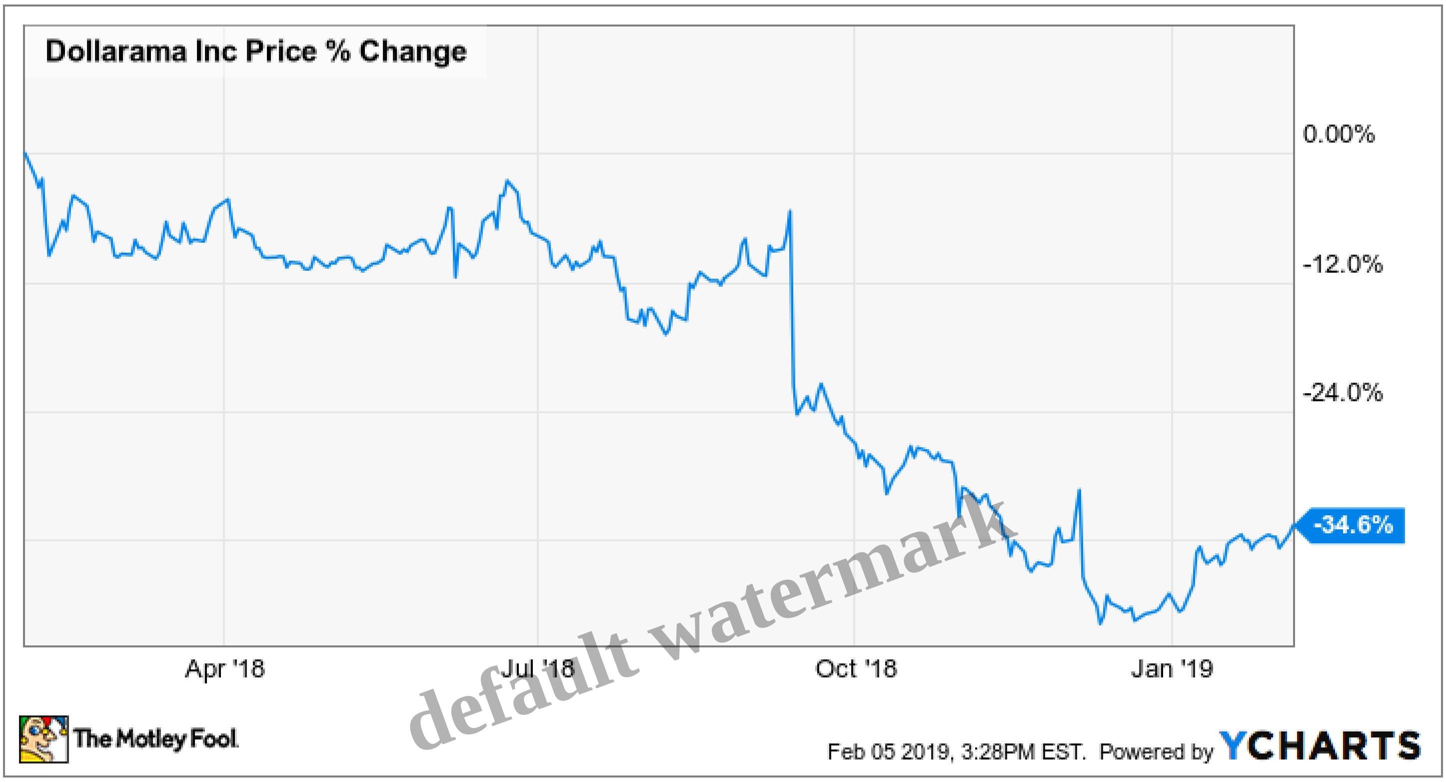
Dollarama (TSX:DOL) and **Alimentation Couche-Tard** (TSX:ATD.B) are two popular growth stocks that have delivered similar price returns over the last five and 10 years. However, one is more attractive today.

DOL data by YCharts. The five-year price action of Dollarama and Couche-Tard.

Dollarama

Since 2009, **Dollarama** (TSX:DOL) stock persistently traded higher and higher until it finally peaked at about $56 per share in early 2018 for total returns of more than 40% per year on average.

Although the growth company's earnings expanded five folds in the period, the stock climbed 17 times. The market got too excited with Dollarama's growth, and the stock got ahead of itself by expanding from a price-to-earnings ratio (P/E) of less than 16 to more than 36.



DOL data by YCharts. One-year price performance of Dollarama.

The stock has fallen by more than a third in the past year, but it's just a reversion to the mean. And it's a good time for investors interested in Dollarama to consider starting a position in the stock at a much more reasonable multiple.

At about $36 per share as of writing, Dollarama trades at a P/E of about 21.3, while it's estimated to increase its earnings per share by about 12% per year on average over the next three to five years, thereby implying a PEG ratio of roughly 1.78.

Alimentation Couche-Tard

Alimentation Couche-Tard (TSX:ATD.B) looks to be an even more [attractive growth stock](). At about $73 per share as of writing, it trades at a P/E of roughly 18.3, while it's estimated to grow its earnings per share by 12-15% per year on average over the next three to five years. This implies a PEG ratio of about 1.2-1.5.

Couche-Tard stock has broken out of its multi-year trading channel between the low $50's and high $60's per share and hitting new heights. Technically, this is seen as a very positive indicator.

Couche-Tard is a well-run company that has generated tremendous value for its long-term shareholders. Since just before the last recession, the stock has delivered an annualized rate of return of more than 25%. In the period, its earnings per share increased by more than sevenfold, leading to a $10,000 investment transforming to more than $120,000 in about 10 years.

Through decades of expanding its convenience store empire via acquisitions, Couche-Tard already has key positions in North America and Europe. However, there's still room to expand its network in the U.S. as well as the Asia Pacific region. Couche-Tard is disciplined in maintaining a strong balance sheet and has continued its efforts to improve its operations and offerings.

Investor takeaway

Between Dollarama and Couche-Tard, the latter has a stronger balance sheet and brighter prospects with global growth opportunities. Therefore, in my opinion, it's more attractive today for the medium to long term.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

1. Msn
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