



Investors: Do You Own Canada's Best Retail Stocks?

Description

Generally, I'm not a fan of retail stocks. I have a couple in my portfolio, but not many.

There are a few reasons why I like to mostly avoid the sector. Retail has high fixed expenses and low barriers to entry. This leads to crummy profit margins. There's plenty of competition, and the aforementioned low barriers to entry mean it's easy for an existing retailer to diversify into a new product line. The only real competitive advantage is a good brand, but many consumers simply don't care. They'll search for the lowest price, whether that happens to be online or in-store.

When investing in retail, I recommend investors follow a simple strategy. Instead of going bargain shopping and loading up on statistically cheap stocks, they should concentrate on the best in the sector.

Here are my top picks for the three best retail stocks in Canada, today. Do you own any of these stalwarts in your portfolio?

Dollarama

Dollarama ([TSX:DOL](#)) is widely regarded as one of Canada's top growth stocks, going from a single Quebec-based location in 1992 to some 1,200 stores just 27 years later. The growth isn't finished, either. I estimate the company can easily open another 500 locations before running into any major issues, and it does have an option to buy Dollar City, a rapidly growing Central American chain of similar stores.

The company has two main advantages over rivals. Firstly, it has done a masterful job of growing its brand. Dollarama was recently listed as one of Canada's most trusted brands, and it's easy to see why. The company consistently offers its customers good value. Secondly, the chain's locations are usually under 10,000 square feet versus other stores that regularly have locations five to 10 times larger. This allows Dollarama to be selective in its merchandise. There's no such thing as a loss leader at Dollarama; everything comes with a 40% gross profit margin.

Although shares have recovered somewhat lately, the stock is still down significantly from all-time highs. Investors who get in today are paying 18.5 times projected 2019 earnings, which is a pretty cheap price for a company with such massive growth potential.

Canadian Tire

Canadian Tire ([TSX:CTC.A](#)) has grown into one of Canada's largest retailers. Besides owning its namesake Canadian Tire stores, the company also owns Mark's, which is up to some 400 locations, Sport Chek, Autosource, and hundreds of gas stations. It also recently acquired Helly Hansen, the winter coat maker.

The company also has plenty of interests outside of retail. It is one of Canada's largest credit card issuers, which is just one part of a larger finance arm. It has spun out much of its real estate into a separate REIT but still retains a big ownership interest. And Canadian Tire owns its own rewards program, Triangle Rewards, which has grown into one of the biggest loyalty programs in Canada.

Plus, investors who get in today are buying shares at a relative bargain. The stock is down some 13% over the last year, and shares trade hands at just 11.3 times forward earnings expectations. The company also pays a solid 2.6% dividend yield.

Alimentation Couche-Tard

Alimentation Couche-Tard's ([TSX:ATD.B](#)) transformation from a Quebec convenience store chain into worldwide powerhouse is the stuff of legends. It currently owns some 16,000 locations around the world — a feat accomplished less than 40 years after opening its first location.

There's still plenty of potential for expansion, too. The company hasn't even touched certain markets around the world, like many parts of Asia, the United Kingdom, or nations like France or Germany. And many oil companies may be looking to sell their convenience store divisions to focus on their core business.

Like Dollarama, Couche-Tard is a great growth stock trading at a very reasonable valuation. Shares trade hands at less than 18 times forward earnings — a steal for a company that has the potential to grow at +10% for a very long time.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

2. TSX:DOL (Dollarama Inc.)

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Date

2025/09/09

Date Created

2019/04/08

Author

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