Forget Walmart (NYSE:WMT): This Canadian Retail Giant Is the Better Value Buy

Description

Walmart (NYSE:WMT) is an easy investment option if you're looking for a big retail stock to invest in. But that doesn't mean it's the best value for your money or that it's the best investment for your portfolio. The retailer's revenue has risen just 6.7% in three years, and while it may be a safe stock to buy, growth may be more challenging for the company, as it competes head on with online retail giant **Amazon**.

Walmart is a solid long-term investment, but it just isn't a stock that may have as much potential as a more modest stock does. Trading at 23 times earnings and around 4.5 times its book value, investors are paying a big premium for a stock that may not produce the growth that it should at those multiples. Its PEG ratio, which factors in expected growth, comes in at well over four. Generally, a PEG of less than one is a good growth buy; the further away from one a stock is, the worse of a buy it is.

That's why investors may want to consider an underrated retail stock instead. **Canadian Tire** (TSX:CTC.A) can't compete with Walmart head on. It wouldn't stand much of a chance on pricing. But unlike many retailers, Canadian Tire has stuck around, even amid rising competition from Walmart and Amazon. Revenue of $14 billion in 2018 grew by 4.6% from the prior year, and with the company's acquisition of Party City, Canadian Tire could see even more growth in the years ahead.

Not only does its top line look to be in good shape, but profits remain strong as well, with the company earning $699 over the trailing 12 months. With the stock trading at around 13 times earnings and two times book value, it's a more modest value buy for investors, and one that is still showing good growth potential.

Another key reason why Canadian Tire a strong investment is that the business has a very loyal following of customers. The Canadian Tire brand resonates with many people in Canada, and it's an iconic brand in this country that commands a loyalty that many other retailers would envy. It gives the company an important competitive advantage in the market, making it one of the few good retail stocks to invest in, even as many continue to struggle and shut their doors.

Bottom line

Both Walmart and Canadian Tire are great long-term investments that you can buy and hold. But if you're looking to maximize your returns, going with the smaller stock with potentially more upside could give you a chance to earn a better return. Taking on some risk can help ensure that you earn a better reward in the end.

Investing in retail can be dangerous, but investing in companies that have sustainable competitive advantages like Canadian Tire can minimize that risk. And with the company's latest results looking strong, it's hard to argue with investing in the Canadian retailer today. Investors can also take advantage of its growing dividend, which today yields around 3% per year.

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