Forget Dollarama (TSX:DOL): This TSX Consumer Stock Is a Better Buy Now

Description

Consumer stocks are in vogue. High volatility and the uncertain economic outlook is leading investors to put their money in consumer stocks for the safety and stability of their portfolios. However, are all consumer stocks worth investing at the current price levels? The answer is no.

For Canadian investors, **Alimentation Couche-Tard** (TSX:ATD.B) and **Dollarama** (TSX:DOL) are the top two consumer stocks on TSX to buy. Both these retailers have grown at a breakneck pace. Their sales and earnings have multiplied over the past several years. However, when it comes to future growth, Alimentation Couche-Tard seems to have the edge over Dollarama.

I am not indicating that Dollarama will not grow in the future. It is just that Alimentation Couche-Tard is better placed than most of its peers when it comes to meeting the changing consumer demand.

What do past performances indicate?

As I said earlier, both these retailers have performed exceptionally well over the past several years, driving sales and gaining market share. For those who don't know, Dollarama's top line and EBITDA grew at a CAGR of 12.1% and 18.1%, respectively, from fiscal 2011 to fiscal 2019. During the same period, Dollarama's net earnings rose at a CAGR of 21.3%.

Store expansion, value offerings, and operational efficiencies boosted Dollarama's revenues and profitability.

In comparison, Alimentation Couche-Tard's top line and EBITDA increased at a CAGR of 16% and 22%, respectively, during the same period. Meanwhile, its operating income and adjusted EPS have grown at a CAGR of 22% from 2011 to 2019. Alimentation Couche-Tard's significant scale, ability to integrate acquisitions, control over costs, and strong cash flow-generation capabilities have enabled it to generate stellar growth.

Looking at the past performances, Alimentation Couche-Tard seems to have the upper hand.

What's in the offing?

The pandemic has altered a lot of things. People are shopping online more instead of going to the store, and this is where Alimentation Couche-Tard has the advantage over Dollarama.

Dollarama targets bulk buyers through its online platform, and its online sales are non-material to its overall sales. But Couche-Tard is quickly adapting to changing customer demand. Witnessing more traffic online, Couche-Tard is rapidly expanding its e-commerce platform and fulfillment capabilities, which is likely to drive traffic in the coming quarters.

Couche-Tard has expanded its home-delivery services in North America to over 620 stores. Meanwhile, it is also offering click and collect and curbside pickup services in North America and Europe. The convenience and safety of online shopping are likely to be a key differentiator among retailers in the coming years.

Bottom line

I like both Dollarama and Alimentation Couche-Tard. However, when it comes to the growth prospects, Alimentation Couche-Tard seems to be a clear winner. Besides, Alimentation Couche-Tard stock also looks attractive on the valuation front. Alimentation Couche-Tard stock trades at a forward price-to-earnings of 20.2, which is lower than Dollarama's forward price-to-earnings ratio of 23.8.

Alimentation Couche-Tard's strong underlying sales, e-commerce expansion, solid balance sheet and ability to accelerate growth through acquisitions should help the company to outgrow peers in the coming quarters and makes it a must-have stock in your portfolio.

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