Here’s Why These 2 Top Retail Stocks Are Strong Investments

Description

Investing during a pandemic was never going to be a clear-cut undertaking. From banks to energy producers, some of the strongest asset types have proven to be disappointing. However, two consumer asset types are looking hot right now. In fact, key names in the consumer staples and consumer durables classes could see investors packing years of growth in their stock portfolios for many years to come.

Consumer staples stocks are classic safety plays

There are few asset types more defensive that consumer staples. Groceries have long been pegged as recession-proof. The current market has shown that they are pandemic-proof, too. An exemplary pick in this asset class is **Alimentation Couche-Tard** (TSX:ATD.B). This is a nicely diversified name both in terms of its business operations and international markets.

It’s also a rewarding growth stock with an expansive management style. The company has grown its footprint from 6,000 to 16,000 sites in the course of the past decade. While its income is sourced primarily from the U.S., around 30% is sourced predominantly from Canadian and European sites. Total shareholder returns could hit 49% by 2023, making for a satisfying growth stock in a strongly defensive sector.

A consumer durables growth stock

Retailers have long known the remarkable cash-generation ability of children. Call it “pester power” — the add-ons, gifts, and holiday distractions that keep toy companies doing business hand over fist.

Well, some of them. It's arguable, in retrospect, that Toys 'R' Us could have taken its business in another direction. Operational blunders are easily made when times are good, after all. In fact, it's arguable that, given a more adaptive business model, Toys 'R' Us might even have weathered the current pandemic. Indeed, other names are managing to remain profitable in this space, albeit less so than usual.

Consider **Spin Master** (TSX:TOY), for instance. A 31% year-on-year pullback makes for an undervalued name well positioned to dominate the disordered toy market. And Spin Master — like many other weighed-upon retailers — could break out given a sustained recovery rally. But what's particularly of note here is the combination of the all-weather status of toys with a comprehensive wide-moat business network. A robust balance sheet and positive earnings outlook add up to a moderately strong buy.

Balancing defensiveness and growth

Buying shares in healthy retail companies for their steady growth potential is a strong way to steadily increase wealth in a stock portfolio. Names like Alimentation Couche-Tard and Spin Master represent canny plays in an otherwise embattled sector. These are both names that could see reliable share price appreciation for years to come. The grocery giant also pays a 0.65% dividend. A very low payout ratio of 9% leaves plenty of room for dividend growth.

It would be understandable, given the current situation, to look at the retail sector's woes and avoid this asset type altogether. However, pairing the defensive dividends and growth possibilities of Alimentation Couche-Tard with Spin Master's capital gains potential could pay off. With total returns of around 47% in three years, for instance, Alimentation Couche-Tard give a significant boost to a stock portfolio.

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2. TSX:TOY (Spin Master)

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