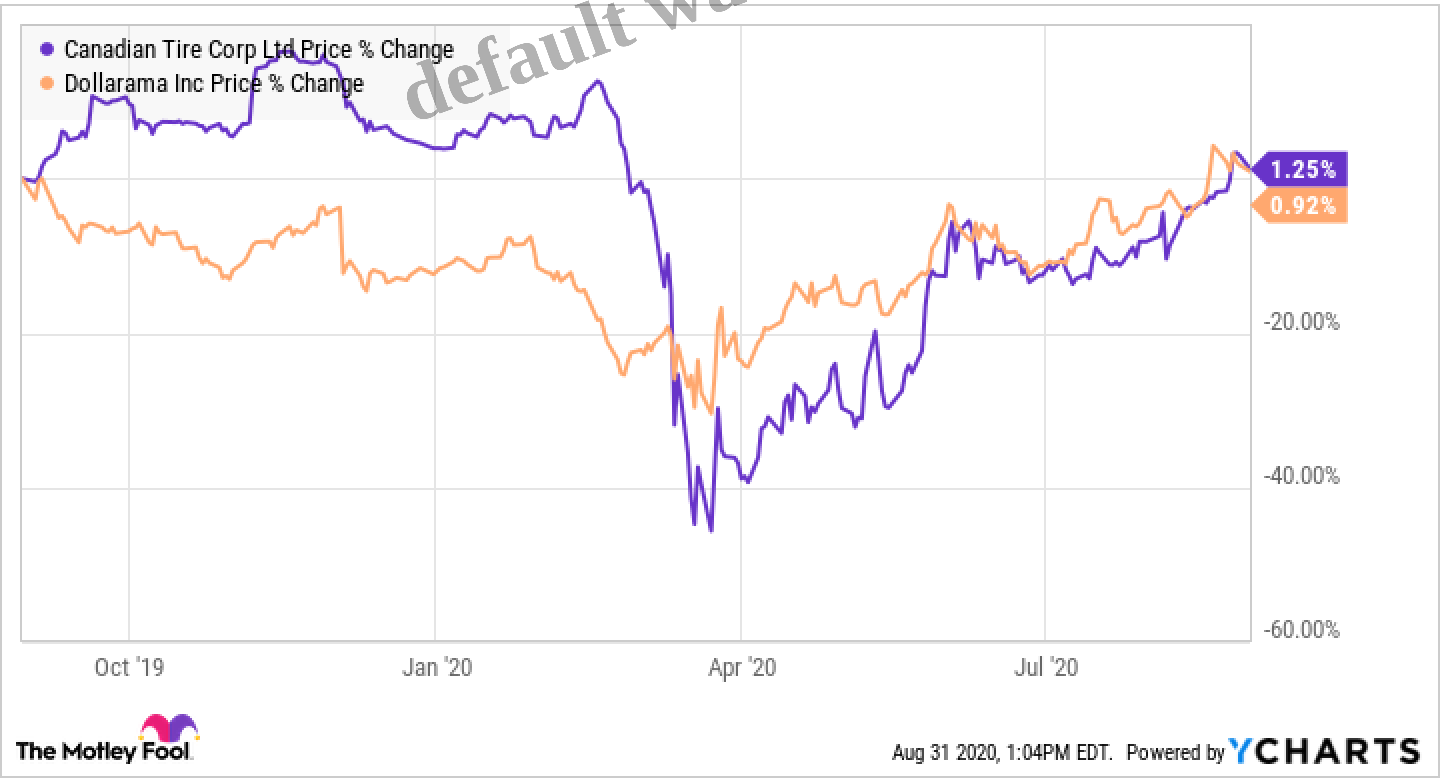
1 Thing All Retail Stocks You Invest in Should Have

Description

With the economy opening back up and slowly getting back to normal, it's tempting for investors to start buying retail stocks again. Shares of two large Canadian retailers, **Dollarama Inc** (TSX:DOL) and **Canadian Tire Corporation, Limited** (TSX:CTC.A), have been recovering well since a market crash in March sent their values tumbling:



CTC.A data by YCharts

But entering the last three months of the year, there's going to be one area of their business that will be crucial in how well each of these stocks does here on out: e-commerce. If it's one theme investors are seeing right now, it's that retailers with strong, robust websites that can facilitate online shopping are doing well.

When **Walmart** released its second-quarter results a couple of weeks ago, its e-commerce sales were up 97%. Rival **Target** generated even greater online sales growth of 195%. The same pattern was observed when **Home Depot** and **Lowe's** reported their results, with their online sales doubling their prior-period totals.

Online shopping is the new normal. An increase in restrictions — including people needing to wear masks in some stores — may only push more consumers online. And if you're investing in a retailer, you're going to want to invest in one that can dominate online and compete against **Amazon** and other retailers, like the ones noted above.

Are Canadian Tire and Dollarama good buys?

In its most recent earnings report released on August 6, Canadian Tire's e-commerce sales grew by 400% year over year. It's a strong sign that the company is able to adapt to a greater demand for online shopping. With free shipping to a store for pickup as well as a fee for products that are delivered straight to a consumer's door, Canadian Tire does offer its customers multiple options to choose from when buying items online.

With a large variety of products to choose from, consumers aren't limited in what they can buy. From an e-commerce standpoint, Canadian Tire is in a good spot. In fact, it may be one of the retailers that does well this year because of its website. Its total retail sales growth was 9.3% in Q2, an impressive feat given that many companies suffered big declines during the period, when many restrictions were in place.

Dollarama, however, may be in a tougher boat. In its first-quarter results released on June 10, the dollar store chain reported sales growth of just 2% with comparable sales up just 0.7% (excluding stores that were temporarily closed). Dollarama's website just isn't optimal for consumers as products need to be ordered in bulk. Consumers looking for similar products could go to Walmart or Amazon's sites and are likely to find similar items that they can group together with larger purchases.

Investors will get more of a glimpse into the company's operations during the pandemic when Dollarama releases its second-quarter results on September 2. It will cover the period from May 4 until August 2. But without a strong online performance, it could be another quarter of limited growth for the company –setting the stage for more of a decline to come for its share price this year.

While Canadian Tire may be an attractive buy with strong online sales, Dollarama is a stock I'd avoid.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

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