



Top 2 Earnings This Week: Dollarama (TSX:DOL) and Alimentation Couche-Tard (TSX:ATD.B)

Description

The broader market is continuing to rally despite the prolonged COVID-19 crisis. The **S&P/TSX Composite Index** — the key Canadian stock market index — is set to end the fifth consecutive month on a positive note. The index rose by about 3.5% in August after registering over 18% gains in the previous four months combined.

The ongoing earnings season

Last week, top banks such as the **Royal Bank of Canada** and **Canadian Imperial Bank of Commerce** reported their fiscal third-quarter results. While their latest quarterly earnings fell on a year-over-year (YoY) basis, they beat Bay Street analysts' estimates. Their earnings beat boosted investors' confidence as the shares of RBC and Canadian Imperial Bank surged by 3.2% and 6.3%, respectively, last week.

However, I suggest conservative investors to [avoid buying these bank shares](#) right now based on their recent results. The core banking operations of both of these banks are still facing challenges with many uncertainties in the near future. A jump in their capital market segment volume — driving Royal Bank of Canada's and Canadian Imperial Bank's Q3 earnings higher — might not last very long.

Top TSX earnings this week

Heading into the first week of September, we have some important earnings lined up. Convenience store operator **Alimentation Couche-Tard** (TSX:ATD.A)(TSX:ATD.B) and **Dollarama** ([TSX:DOL](#)) — the dollar store retailer — will announce their latest quarterly results on September 1 and September 2, respectively.

Let's take a quick look at some key expectations from their upcoming earnings event.

Estimates for Alimentation Couche-Tard's Q1 earnings

In the fourth quarter of fiscal 2020, Alimentation Couche-Tard's adjusted earnings rose by 80.8% to US\$0.47 per share — mainly due to [higher road transportation fuel margins](#) in the U.S. and Europe. However, it saw a traffic decline due to the COVID-19 restrictions — which drove its fourth-quarter revenue down by 26% YoY.

In Q1 of fiscal 2021, analysts expect Alimentation Couche-Tard's earnings to drop by nearly 17% on a YoY basis to US\$0.40 per share. Ahead of its earnings event, all 13 analysts covering the company are recommending a buy with a consensus target price of \$50.57 per share on TSX. It reflects a 16% upside potential from its market price of \$43.74.

Expectations of sequential improvement in Dollarama's Q2 earnings

Despite the pandemic, Dollarama's overall revenue remained strong in the last quarter. Analysts expect this positive revenue growth trend to continue as they see a 3% rise in its Q2 fiscal 2021 sales.

Based on these estimates, Dollarama's second-quarter earnings are likely to be \$0.41 per share — showcasing significant improvement from its \$0.27 per share adjusted earnings in the previous quarter.

In contrast, the company's bottom line margin could drop to 13.8% in the quarter ended August 2, 2020, as compared to 15.1% margin a year ago.

Currently, seven out of a total of 13 analysts covering Dollarama stock are recommending a buy with a price target of \$51.58. However, its stock has already risen above this price target, as it currently trades at \$51.83 per share.

Why these earnings events are important

Alimentation Couche-Tard's and Dollarama's earnings events this week will reveal how the prolonged pandemic is affecting their business operations. Assessing this impact will play a key role in helping investors and analysts set their expectations from the companies' earnings for the next few quarters.

Both Alimentation Couche-Tard and Dollarama have proven to be great stocks to invest in for the long term, as they both have yielded over 1,000% return each in the last 10 years. However, you may want to avoid making a short- to medium-term long position in these stocks right now as the Canadian stock market seems to be full of better opportunities.

Many TSX stocks that fell sharply earlier this year due to COVID-19 related crisis (like **Air Canada**) have recently started recovering. Such stocks may yield much higher returns in short- to medium-term as compared to Alimentation Couche-Tard and Dollarama.

CATEGORY

1. Bank Stocks

2. Coronavirus
3. Investing

TICKERS GLOBAL

1. TSX:ATD (Alimentation Couche-Tard Inc.)
2. TSX:DOL (Dollarama Inc.)

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