



Got \$3,000? 2 TSX Stocks to Buy Before Third-Quarter Earnings

Description

The **TSX Composite Index** surged 5% between September 24 and October 12, as that was the period when Canada was launching the new Canada Recovery Benefit (CRB). Every stock from high-growth **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) to Dividend Aristocrat **RioCan REIT** ([TSX:REI-UN](#)) soared 19% and 6%, respectively, on the CRB optimism. However, the [delays in CRB payment](#) because of a technical glitch in the Canada Revenue Agency (CRA) system pulled down the market.

The TSX fell 2% since October 12, when the glitch occurred. Shopify stock fell 7%, whereas RioCan stock was unchanged. Next week is important for the two stocks as they release their third-quarter earnings on October 29.

Should you buy Shopify stock ahead of third-quarter earnings?

During the second-quarter earnings, Shopify stock soared 9% a week ahead of earnings as investors were optimistic that the e-commerce platform would report record revenue. This rally continued for another week as the company's earnings lived up to investors' expectations. In the two weeks around earnings, Shopify stock soared 13%. This means that if you had invested \$3,000 in Shopify a week ahead of earnings, you would have earned \$400 in just two weeks.

We are back to a week before the third-quarter earnings. Once again, the company is expected to report another 100% revenue growth. And once again, the stock is down from its high. In the [second quarter](#), Shopify's revenue surged 97% year over year (YoY) for the first time since 2016. This growth came from a 118% increase in gross merchandise volume (GMV).

Even if Shopify delivers another 95%-100% growth in the third quarter, its stock won't surge as much it did during the previous earnings. But it would make a new high (above \$1,502, representing a 7% upside) if its revenue surges above 100%.

As part of the pandemic initiative, Shopify extended its 14-day free trial to 90 days, which saw a 71% sequential increase in new stores created on its platform in the second quarter. The free trial ended on August 31. The third-quarter earnings will determine whether the company succeeded in converting the

new free trial users into paid customers.

A higher conversion rate would boost its subscription revenue, resulting in more than 100% revenue growth. If you are bullish on Shopify's earnings, buy the stock now.

Should you buy RioCan stock ahead of third-quarter earnings?

Unlike Shopify, RioCan is a real estate company and the other side of the same retail coin. RioCan is more about dividends than growth. Hence, earnings don't deter its stock price. However, the pandemic-driven lockdown significantly impacted its stock price. Physical retail stores were temporarily shut down, reducing its second-quarter gross rent collection to 73.3%.

However, its rent collection improved to 85% in July. Its third-quarter earnings would give an idea of how much the retail market has recovered.

In the second quarter, RioCan provided \$19 million in rent abatements and bad debts and reduced the fair value of its investment properties by \$451.7 million. These non-cash items resulted in a net loss of \$350.8 million. Its upcoming earnings would determine how much of these losses materialized. If the default risk increases and impacts its cash flows, the stock could fall over fears of dividend cuts.

If cash flows and rent collection improves and default risk lowers, the stock could start heading to recovery.

Investor takeaway

Both companies are indirect competitors. Shopify encourages retailers to open an online store, whereas RioCan provides retailers space for physical stores in prime areas. When physical stores closed, RioCan stock fell 45%, whereas Shopify stock surged over 180%. However, RioCan's dividend yields surged 9.8%.

Both the stocks can balance your portfolio with growth and dividend. If the reopening of physical stores negatively impacts Shopify, it will positively impact RioCan. If you have \$3,000, divide the money equally between the two stocks and enjoy Shopify's 7-10% growth and RioCan's 9.8% dividend.

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1. Coronavirus
2. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:REI.UN (RioCan Real Estate Investment Trust)
3. TSX:SHOP (Shopify Inc.)

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