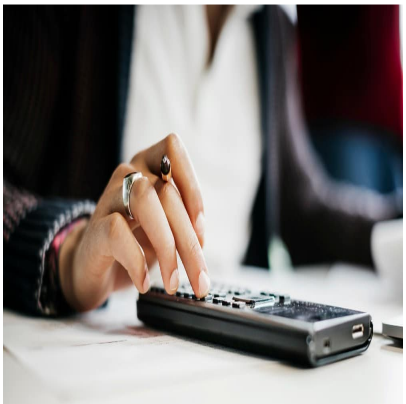

2 Dirt-Cheap Canadian Stocks That Are Taking Off

Description

Canadian stocks with newfound momentum and depressed valuation metrics may be very timely buys for those looking for great results over the near- to medium-term. Consider **Alimentation Couche-Tard** (TSX:ATD.B) and **North West Company** (TSX:NWC), two boring retail stocks that currently find themselves in the value and momentum category this July.

I think both names could add to their gains in the second half. But which Canadian stock is a better buy, and just how much of a margin of safety should Canadian investors insist on?

Alimentation Couche-Tard

Couche-Tard stock is starting to wake up, recently flirting with a new all-time high after years of failed breakouts and numerous corrections.

The convenience store consolidator needs a big acquisition to fuel its rally to the next level. The company has more than enough liquidity on the balance sheet to make way for a massive acquisition in the c-store (or grocery) space. Still, valuations are on the higher end these days, and that's making it tough for management to find a potential deal that's truly rich with synergies.

Couche-Tard isn't just a roll-up play. It's a global convenience retailer with one of the smartest managers on the planet. They're not looking to acquire a firm just because there's enough cash on the sidelines. They're hungry for synergies. And if there aren't cheap deals out there that can produce long-term value, no deals will be made.

I admire management's patience and think other investors should, too. Yes, we all want an accretive deal as soon as possible. But if valuations are stretched, I'd much rather management do nothing on the M&A front and focus its efforts on growing organically. Why? M&A isn't value-creative by default. In fact, it can hurt value! Just look at the negative reaction to Couche-Tard's attempt at taking over Carrefour!

If the price isn't right or the piece doesn't quite fit the jigsaw puzzle, walking away is the best course of action. And few managers out there have what it takes to disappoint investors by walking away. In the end, it's about creating value via synergies, not about trying to consolidate the global c-store industry at any cost!

More recently, the company had an Investor Day meeting, which gave lift to battered shares of Couche-Tard. The company reaffirmed to investors that it's still planning to grow quickly. Whether an acquisition comes in 2021 or next year, I still think the Canadian stock is due for an upside correction at some point down the line. At just 15.9 times earnings, Couche-Tard is way too cheap, given the low-risk growth that's possible via a Buffett-esque take on M&A.

North West Company

North West Company isn't a growth stock trading at a value multiple like Couche-Tard; it's a deep-value play with one of the juiciest dividends on the **TSX**. If you seek high income and a lower magnitude of volatility, perhaps North West is the horse to buy on a breakout.

The Canadian retailer mostly serves remote, harder-to-reach regions in northwestern North America. Such rural areas aren't nearly as competitive as the inner city of major Canadian cities. As such, there's less competition and slightly higher barriers to entry in such less-served markets.

North West's management team knows rural markets very well. And as a result, I expect the company to continue generating ample economic profits in its corner of retail, even as e-commerce pressures pick up.

The stock trades at 10.6 times earnings, with a 4% dividend yield and a 0.5 beta (lower is less volatile), making it one of the best defensive plays on the TSX.

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