Better Canadian Stock to Buy: Canadian Tire (TSX:CTC.A) vs. Alimentation Couche-Tard (TSX:ATD.B)

Description

Whether it be potential trouble with mutated Alpha and Delta variants of the coronavirus or increased market jitters from unexpected high inflation in North America, there's a significant sense of capital safety when you invest in **TSX** stocks of well-established businesses that have survived all known recessions and expanded during historical economic booms. Two such strong businesses include **Alimentation Couche-Tard** (TSX:ATD.B) and the **Canadian Tire** (TSX:CTC.A). Which of the two top Canadian stocks should you buy first?

Canadian Tire is a specialty retailer (a consumer cyclical business) that survived lockdowns and came out of a pandemic-stricken year 2020 with its investment-grade credit rating intact. Alimentation Couche-Tard is a growing international grocery store operator (a consumer defensive business) that can thrive during recessions.

If you are wondering which of the two strong businesses to buy right now, here's a head-to-head comparison of the prospects of Alimentation Couche-Tard stock against Canadian Tire stock during the next year.

Which stock to buy for higher dividend income?

Alimentation Couche-Tard pays a $0.087 quarterly dividend that currently yields a low 0.72% annually. The company could increase its dividend by nearly 23% next year. The compound annual dividend-growth rate was 17.5% over two consecutive years. However, the yield will only increase to about 0.98%, which will still be too low for an income-oriented investor to consider.

Canadian Tire stock pays a $1.175 quarterly dividend which currently yields a respectable 2.46% annually. The payout could increase by 10.5% next year to yield 2.7% for 2022. Investors can actually buy shares in Canadian Tire for dividend income purposes. The company has a dividend-reinvestment policy (DRIP).

Future revenue and earnings-growth outlook to 2022

Analysts expect Alimentation Couche Tard to grow its revenue by 29% for the calendar year 2021 followed by a cooled-off 2.4% top-line growth in 2022. However, normalized earnings per share (EPS) could decline slightly by 2.6% this year before making a 4.9% recovery next year. The company's aggressive share-repurchase programs aid normalized earnings-per-share growth.

Unlike Alimentation Couche-Tard, Canadian Tire is expected to grow sales by 4.5% in 2021. CTC's revenue growth could slow down to 0.5% for next year. However, after a surge in online sales during the pandemic, rising margins, and well-timed share repurchases, Canadian Tire should grow its earnings by 23% for 2021 and 2.5% next year. Higher earnings growth should justify rising share prices.

Which company is cheaper to invest in?

Using the PEG ratio, a valuation tool popularized by value investor Peter Lynch, Canadian Tire stock has a PEG ratio of 1.4, which is higher than one. This implies CTC shares are expensive or potentially overvalued.

If you think shares in Canadian Tire are expensive given the company's expected future earnings-growth rate, compare its PEG of 1.4 to Alimentation Couche-Tard's PEG ratio of 4.7. Yes, shares in Alimentation Couche-Tard are much more expensive right now.

Which has better future investment returns potential?

So, how much of a return can a new investors expect to earn on Alimentation Couche-Tard and Canadian Tire stock over the next 12 months?

Analysts maintain an average price target of $229.99 on CTC shares today. This implies a potential 19% upside over the next 12 months. Add a 2.4% dividend yield, and you have a potential 21% total return by this time next year.

Alimentation Couche-Tard shares currently trade at $48.93, and the average analyst price target is at $54.73. This implies a potential 11.9% price return over the next 12 months, or an under 13% total return over the next year.

That said, let's be cautious that share prices on the market can stray from analyst targets for months.

Foolish bottom line

Both companies are great investment candidates for new money. They have convincing histories of great revenue and earnings growth, and they retain great and innovative management teams.

Canadian Tire is a better bet if you prefer recurring and growing dividend income. But if you want to spread capital risk internationally, Alimentation Couche-Tard will offer more geographical diversification.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date
2025/08/18
Date Created
2021/07/22
Author
brianparadza