2 Canadian Stocks to Buy as They Break Out

Description

Buying dips is a popular strategy among value investors, but buying breakouts after prolonged periods of consolidation, I believe, is a timelier move to achieve both near- and medium-term gains. Undoubtedly, stocks can flatline for many months or years at a time, leaving investors little to nothing to show for their patience.

Once such consolidating stocks break through their long-lived ceiling of resistance, though, a sustained rally to much higher levels could be in the cards. And that previous resistance level? It'll act as a strong level of support. In technical terms, the longer a stock consolidates, the greater the pop once the breakout finally happens.

Canadian stocks worth buying on a breakout

In this piece, we'll have a closer look at two compelling Canadian stocks that look like coiled springs that are ready to fly to new highs. Fundamentally, things are looking up, and their valuations still appear modest relative to the forward-looking trajectory. So, if you seek dirt-cheap stocks that are also timely, consider shares of **Alimentation Couche-Tard** (TSX:ATD.B) and **Dollarama** (TSX:DOL), two Canadian stocks that only recently made new highs not seen in years.

Alimentation Couche-Tard

In the case of Couche-Tard, the last two years have been wildly volatile, with the stock fluctuating in the low- to mid-$40 range. What caused the pressure? A combination of near-term noise, profound uncertainties and modest disruptions relating to the COVID-19 pandemic.

After management had a chance to explain its direction, shares of the convenience store giant havenot looked back. The stock surged to a new high of $49 and change in what could be the start of a remarkable breakout move. Just how high could this breakout rally propel the stock? I'd look for themid- to high-$50 range by year-end, as investors warm up to the convenience retailer that's showingsigns it's about to put its foot back on the gas.

The company has many growth levers to pull. It has enough dry powder to make a huge splash in the M&A space. Once the appropriate opportunity presents itself, I have no doubt that management will take advantage. Until then, the company will pursue organic growth initiatives to beef up same-store sales (SSS) in a less turbulent post-pandemic environment.

The future looks very bright for the Quebec-based company. Couche-Tard's technological initiatives, including frictionless payments, lead me to believe that the company is evolving into an innovator in its corner of the retail market. With a long growth runway in the global convenience store space and interesting side bets, including those on cannabis retailer **Fire & Flower**, I think the dirt-cheap 16.1 times earnings multiple has room to expand in a big way. Perhaps this breakout move and an earnings beat could send shares much higher over the coming 18 months.

Dollarama

Dollarama (TSX:DOL) has been stealthily charging higher in recent weeks, thanks partly to much-improved results. It's been a choppy rally, but it's a breakout, nonetheless. As COVID-19 headwinds continue to fade, the company is poised to expand its store count across the country again.

As you may recall, I'd predicted the devastating crash in shares back in early 2018. In mid-2020, I changed my tune on the name, and I'm not about to back down. Dollarama stock still looks cheap relative to the defensive growth you're getting. Sure, 31 times earnings is quite lofty, but given the magnitude of earnings growth that could be in the cards post-COVID, I think the stock isn't nearly as expensive as it looks here. It's been a long time coming. But Dollarama stock is finally ready to move on after years of vicious fluctuations.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)

PARTNER-FEEDS

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

8. Yahoo CA

PP NOTIFY USER

1. joefrenette
2. kduncombe

Category

1. Investing

Date
2025/08/12
Date Created
2021/07/30
Author
joefrenette