2 Canadian Retail Stocks That Are Way Too Cheap to Ignore

Description

Canadian retail stocks have been beaten down viciously over the past few years. While I do think they'll turn a corner as the value rotation continues, it could take quite a while, as market volatility could drag everything lower over the medium term.

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In any case, rate hikes don't appear to be slowing pace anytime soon. Not with those red-hot 8.5% CPI numbers coming out of the United States. While Canada's inflation levels aren't yet at such heights, they need to be taken seriously, or price increases could leave many Canadians in a very bad spot, especially as wages remain static. Indeed, whenever you've got prices surging higher than wages, you've got a problem on your hands. Rate hikes can solve such inflationary pressures, but it could take around two years for the magnitude to drop down to the levels we're more familiar with.

Indeed, pushing inflation back to 2-3% may be easier said than done. And if a recession needs to be triggered, there are not many places to hide in the equity markets these days.

In this piece, we'll have a look at two retail plays that I think are priced such that even the next recession will not take too much a step out of the following names.

Canadian Tire

Canadian Tire (TSX:CTC.A) proved that it was a retail play with staying power back during the days of lockdowns. Today, the relief rally has come to a plunging halt, with the stock now stuck in a flat trading range just shy of the $200-per-share level.

Indeed, earnings results have been solid, yet the stock still trades as though it's going out of style. With great e-commerce initiatives and a remarkable physical presence, leaving it open to further upside as consumer habits normalize, Canadian Tire looks like a retail stock worth loading up on.

Today, the stock trades at 10 times trailing earnings, significantly cheap than its peers that trade south of the border. Could it be the Canadian Tire has a TSX discount? I think that could be the case for the 100-year-old retailer that shows it still has fight left in it as it adapts in the digital age, with new brands added to its robust arsenal!

With a 2.8% dividend yield, I'd argue that the retail stock is suitable for value and dividend hunters alike!

Empire Companies

Empire Companies (TSX:EMP.A) is a grocery store powerhouse that's thrived in the COVID world. Up 14.2% year to date, the recent bout of momentum doesn't look to be going anywhere anytime soon. With growth fading and value heating up, I see the stock continuing its ascent, even in the face of a potential recession. Now, a recession may or may not happen in 2023 or 2024. But if you're looking to prepare for the worst, Empire is a great way to do it.

The company has come a long way since the days of its countless operational inefficiencies. CEO Michael Medline, former **Canadian Tire** top boss, has done wonders for the company. As the grocer continues its ascent, I guess you could say that the empire has struck back in a big way. At 15.9 times trailing earnings, with a 1.36% dividend yield, Empire is a retail stock for defensive investors looking for a good shot at real returns.

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