2 Retail Stocks Every Canadian Should Own Right Now

Description

The current stock market selloff has provided investors an opportunity to buy quality stocks at a discount. The market mayhem has dragged stock prices of companies across various sectors significantly lower. In this article, I'll analyze two beaten-down retail stocks part of the TSX index that are well poised to deliver outsized gains in 2022 and beyond.

Canadian Tire

Canadian Tire (TSX:CTC.A) is a discretionary retailer. It sells home goods, sporting equipment, apparel, footwear, automotive parts, and accessories through a network of over 1,700 stores. Its brands are some of Canada's most famous, including Canadian Tire, Mark's, SportChek, Party City, Atmosphere, and PartSource.

The company performed very well during COVID-19, and it should be on a roll right now, as the world transitions to a post-pandemic era. In Q1 of 2022, Canadian Tire's retail sales surged by 9.7% year over year. It also increased dividends by 25% to $1.625 per share, indicating a forward yield of 3.3%.

The threat of decade-high inflation numbers, rising interest rates, and the prospect of an economic recession loom large over Bay Street. So, you need to identify companies such as Canadian Tire that enjoy significant pricing power and a wide economic moat.

Shares of Canadian Tire are down 25% from all-time highs, allowing investors to buy the dip. The stock closed at $168 on June 27 and the average analyst target for the stock is $227.40 — a potential upside of around 37%. After accounting for its dividend yield, total returns will be closer to 40% in the next year.

Aritzia

Does it make sense to bet on a luxury stock when a recession is hanging over our heads? Yes, **Aritzia** (TSX:ATZ) is a retailer that sells everyday luxury items, and it has been posting strong numbers, despite a weak macro environment.

In the company's fiscal Q4 of 2022 (ended in February), Aritzia reported revenue of $443.3 million, an increase of 66% year over year. Its net income more than doubled to $34.2 million compared to Q4 of fiscal 2021.

Aritzia attributed its stellar top-line growth to its foray into the markets south of the border. Revenue from the U.S. rose 132% year over year in Q4, accounting for 45% of total sales.

Aritzia is expanding, even as the U.S. is struggling with high inflation. The company plans to open 10 new locations and expand five existing boutiques, most of which will be located in the United States. Aritzia expects these investments to increase revenue by 20% to $1.8 billion in fiscal 2023. Further, the company's e-commerce business grew 32% in the last fiscal, diversifying the revenue base substantially.

ATZ stock is valued at 21 times forward sales and less than three times forward earnings, which is quite reasonable for a growth stock. Analysts tracking the company expect Aritzia to increase sales by 22% to $1.82 billion in fiscal 2023, while adjusted earnings are forecast to rise by 9.2% to $1.67 per share.

With numbers like these, Aritzia is one of the steadiest growth stocks on the TSX. Aritzia stock is currently priced at $38 while Bay Street has a 12-month average target price of $62, indicating an upside potential of close to 63%.

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