2 Value Stocks With Huge and Visible Growth Potential

Description

The consumer discretionary sector is doing better than the frontrunner, energy, in the current market downtrend. Its 2.21% advance in five days is surprising considering the inflationary pressures on consumers. **Dollarama** (TSX:DOL) is a standout, while **Restaurant Brands International** (TSX:QSR)(NYSE:QSR), or RBI, is preparing for massive expansion.

Investors should consider including one or both value stocks in their buy lists. Huge and visible growth opportunities are ahead for the value retailer and operator of quick-service restaurants.

Compelling value

Dollarama believes that its extensive store network (1,431) in convenient locations, whether in metropolitan areas, mid-sized cities, and small towns in Canada, provides customers with compelling value. Dollarcity, where it has a 50.1% ownership stake, is also the fastest-growing value retailer in Latin America.

On the strong financial results to start fiscal 2022, Dollarama's president and CEO, Neil Rossy, said, "Our strong performance across key metrics in the first quarter reflects the relevance of our business model and positive consumer response to our value proposition in a high-inflation environment."

In the three months ended May 1, 2022, total sales, operating income, and net earnings increased 12.4%, 24.5%, and 28.1%, respectively, versus Q1 fiscal 2021. Management noted the double-digit increase in customer traffic following the lifting of COVID-19 restrictions across the country. The demand for affordable, everyday consumables, and seasonal goods was also strong.

Rossy added further, "Mindful of the challenging environment in which we are operating, we will continue to rely on the levers at our disposal to mitigate ongoing supply chain and cost pressures, while providing consumers with the best relative value on the market."

Dollarcity's net earnings for the period from January 1, 2022, to March 31, 2022, increased 155.9% to $8.7 million versus the same period in 2021. The locations of the 358 stores are scattered in Colombia, El Salvador, Guatemala, and Peru. Dollarama’s market cap stands at $22.49 billion. It currently trades at $76.47 per share and pays a modest 0.27% dividend.

Growth via global expansion

RBI acknowledges that supply chain disruptions and a decline in traffic from pre-pandemic levels are major threats to the business. However, management sees a huge opportunity for all its brands to grow worldwide via an expansion in existing markets and entry into new markets.

During the height of the COVID-19 pandemic, many thought the restaurant industry would be hard-pressed to recover. The $30.57 billion parent company of three iconic quick-service restaurant brands defied the gloomy expectations of most investors. Recovery was swift after the share price sunk to as low as $39.24 on March 18, 2020. The year-end closing price was $77.19, or 96.7% higher than its COVID-low.

RBI expects Tim Hortons to drive growth further. Apart from the newly formed master franchise joint-venture partnerships for the brand in Mexico and Spain, management plans to capitalize on the expansion opportunity in India. Overall, the company remains optimistic about the growth potential for the three brands over the long term. At $67.13 per share, the stock pays a juicy 4.23% dividend.

Thriving businesses

The respective businesses of Dollarama and RBI could thrive, notwithstanding rising inflation. Foot traffic and sales growth in the value retailer should remain robust. Expect frugal customers to patronize affordable value meals of quick-service restaurants.

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Date
2025/08/22
Date Created
2022/07/15
Author
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