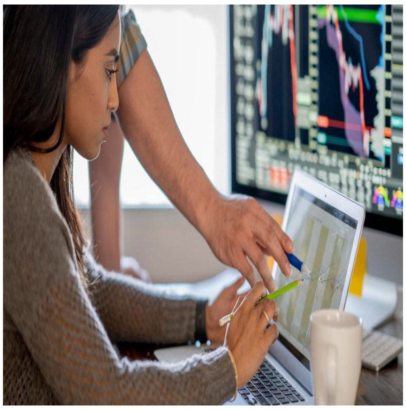

3 Crucial Numbers to Watch as Canadian Stocks Report Earnings

Description

Earnings season has begun for Canadian stocks, one of the most important times of the year for investors. In addition to getting an update on the stocks that you own, you'll also want to see how stocks on your watchlist have performed.

Earnings reports have always been important to follow. But ever since the pandemic and the constantly changing economic conditions, it's been even more crucial for investors to get an update on how their investments are coping in this environment.

Often understanding what to look for when stocks report earnings can quickly allow you to decide whether it was positive or negative. In addition, it can also help you to decide whether a stock is overvalued, fairly valued, or undervalued.

So, as Canadian stocks continue to report earnings over the coming weeks, here are three of the most important numbers to watch for.

How has the company been performing?

Often, the first and most important numbers investors want to see are the actual numbers that the company is reporting for the quarter that just passed. For every stock, the most important numbers will be different, but often revenue, profitability, and margins are the main thing to look for.

Furthermore, in addition to just looking at the sales and earnings that the Canadian stocks report, it's crucial to compare those numbers to the same quarter as last year as well as any analyst estimates to gauge if it's a strong performance or not.

Sales are crucial because it shows whether the company is expanding its operations and whether or not its customers are demanding more of the good and service. It's possible to grow profitability while sales shrink, but over the long haul, that's not sustainable.

The margins and profitability are also crucial to follow, though. Yes, we want to grow sales, but if the company is doing so in a way that hurts profitability, it could hurt the long-term potential.

Past numbers are always important to look at and are where you can find red flags. But in general, the market is forward looking, which is why forward guidance numbers are also crucial to pay attention to.

When Canadian stocks report earnings, it's essential to consider their forward guidance

After looking at how a company has just performed in its most recent quarter, it's also important to turn to the future. Many of the most important valuation metrics are based on what the stock can earn in the future, so looking at a Canadian stock's forward guidance is essential.

Forward guidance typically consists of what sales and earnings the company expects to earn in the future. It also can include how much capital it plans to spend on growth, whether a dividend increase could be on the table and any other relevant information about the company's financial and operational plans going forward.

Most companies won't issue new guidance each quarter, and often guidance is given for the full year. However, even if they aren't issuing new guidance during every quarterly earnings report, each Canadian stock should at least mention whether they are on pace to either hit, miss, or exceed guidance.

Last but not least, look at each stock's financial statements

The majority of attention goes to past operations and future performance potential, and rightfully so. However, it's still essential to look at all the company's financial statements each quarter to ensure the stock is in great shape.

This includes looking at its cash flow to see where it's spending money, as well as ensuring that its debt is sustainable and the balance sheet is in good shape.

A stock like **GFL Environmental** is a great example. It's growing rapidly, and much of the attention from investors is likely on its strong past performance and high potential in the future. However, because it's been growing by acquisition, it's also crucial to ensure that the massive debt load it's taking on can be sustained.

In GFL's case, because it's such a dominant stock in its industry and has highly defensive operations, its financials look to be in great shape. However, in this environment, that won't be the case for all Canadian stocks, so it's paramount to ensure that when they report earnings, you also focus on their core financials.

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