These 2 Stocks Have Seen Growth Accelerate Because of Inflation

Description

Inflation is bad for business. Higher costs squeeze margins, while consumers pull back because their finances are stretched. Most stocks slump during such periods. However, inflation is a positive catalyst for some companies.

These companies offer lower-cost alternatives or have the pricing power to pass higher costs onto consumers. Their growth rate accelerates during periods of high inflation and economic distress.

Here are two growth stocks that have seen a growth spurt recently, as the rest of the market crumbles.

Dollarama

Canadian families have been compelled to cut back on spending this year. Everything, from groceries to rent, costs more. Some of this spending cannot be avoided, but it can be substituted. This substitution benefits discount retailers like **Dollarama** (TSX:DOL).

In its most recent quarter, Dollarama reported a 32.4% bump in diluted net earnings per share. During the same quarter in 2020, earnings growth was just 15%. In other words, the growth rate has doubled as inflation has skyrocketed.

The stock has done well, too. It’s up 27.9% year to date compared to -9.8% for the benchmark TSX Index.

The ongoing downturn is creating new opportunities for Dollarama to acquire commercial property or other discount retail chains to expand its network. This means investors can expect more growth ahead.

At 30% annual growth, Dollarama could double its net income within a few years. The stock’s price-to-earnings ratio of 35 seems justified. Keep an eye on this growth stock.

Tourmaline Oil

Energy is a key element of the cost of living. Not only do families need to spend on fuel to get to work and travel, but transport costs are built into the price tag of every other essential item too. Higher energy prices are a key reason for the current rate of excessive inflation.

Rising fuel costs have been a tailwind for energy giant **Tourmaline Oil** (TSX:TOU). The stock is up 905% since 2020. It's still trading at 10 times earnings per share.

The persistent shortage of natural gas could push Tourmaline's earnings higher in the months ahead. Meanwhile, Canada's energy exports are in high demand as Europe faces a supply crunch. Natural gas use is expected to steadily rise during the winter months, but supply from Russia is unreliable due to geopolitical tensions.

All these factors make Tourmaline Oil an excellent bet for investors seeking safe and consistent growth.

Bottom line

Most companies struggle to grow during periods of high inflation. Rising costs squeeze profit margins, while the higher cost of living reduces consumer demand. However, some sectors of the economy have robust demand and tremendous pricing power.

Essential services such as energy production and discount retailers benefit from inflation. That's why companies like Tourmaline and Dollarama have seen their growth rates accelerate over the past year. Investors looking for safe growth opportunities should keep an eye on these stocks.

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2. TSX:TOU (Tourmaline Oil Corp.)

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