These 2 Profitable Growth Stocks Are Among the Best on the TSX

Description

This bear market has dragged on for quite a while, and there's a good chance it could enter the new year if the Santa Claus Rally doesn't come to town next week. With last week's renewed recession fears, many investors are bracing for a potential test of new bear market lows. It's not fun to hear the calls for new lows. However, as investors, we must be prepared for anything, including a worsening of the bear market.

As rates continue to rise, investors can expect speculative tech stocks and unprofitable growth companies to suffer the greatest downside. Eventually, this class of difficult-to-value stocks will turn a corner. But until the Fed gives investors a break, it seems dangerous to attempt to catch any of the falling knives that lack so much as a price-to-earnings (P/E) ratio.

Profitable beats just sales growth

There's still ample upside to be had in the slate of profitable growth companies out there. On the TSX Index, there are two intriguing ones that stand out to me. In this piece, we'll have a closer look at two names that I believe are likelier to enter bull markets of their own making.

Without further ado, consider shares of **Aritzia** (TSX:ATZ) and **Dollarama** (TSX:DOL), two profitable growth companies that ought to be viewed as preferable to their unprofitable counterparts.

Aritzia

Aritizia is a clothing retailer that's become a staple among Canadian consumers. The company has been steadily moving into the U.S. market in recent years. The expansion has been met with some early success. Still, the move south of the border may still be the tip of the iceberg. Recently, Aritzia shined a bright light on its five-year growth plan.

The plan entails a big pick-up in U.S. sales growth. Undoubtedly, the plan suggests the company will experience similar successes it enjoyed in Canada. It may be too early to conclude that flying south of the border will continue to unlock next-level growth. Though not impossible, Aritzia will have to swim the extra mile to capture the hearts of a very different type of consumer.

Even an iconic Canadian brand like Tim Hortons struggled to find meaningful growth when moving south of the border. While I do think Artizia will be more successful than Tim Hortons, investors must keep a close eye on the performance in the U.S., as it could be key to ATZ stock's next leg higher as recession jitters take it up a notch. The stock trades at just shy of 30 times trailing P/E at writing.

Dollarama

Dollarama is the go-to dollar store for many Canadians. Though prices have crept higher in recent years due to inflation's impact, the chain remains one of the best places to pick up necessities during harsh economic environments. As the economy continues to fumble, expect more solid sales growth for the discount retailer. Its purchasing power is coming in handy as it looks to keep prices at reasonable levels for increasingly budget-conscious customers.

At over 31 times trailing P/E, Dollarama is an intriguing defensive growth option, as it looks to expand stores at home and in emerging markets. While it may be a tad late to overweight your Tax-Free Savings Account in defensives, I think DOL stock remains an enticing value option for investors seeking steady, profitable growth through smooth and rough patches.

I wish Dollarama stock were a bit cheaper. But I don't think we'll get much lower prices from here, given the looming recession.

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