Canadian Tire Caps Off a Fantastic Year

Description

"The ongoing transformation of our company is resulting in significant momentum and record results for our businesses." Those words came from Stephen Wetmore, CEO of **Canadian Tire Corporation** (TSX:CTC.A). The company had just enjoyed a record fourth quarter, with earnings per share of $2.32. The stock reacted positively, gaining 3% on the day.

The retail segment was surprisingly strong. At the Canadian Tire flagship stores, same-store sales increased by 4%. For a banner with such a mature footprint across Canada, such a result is especially impressive. By comparison, in the fourth quarter of 2012, same-store sales at the flagship banner actually decreased.

Growth at Mark's also reaccelerated, coming in at 5.2% on a same-store basis, compared to 3.5% the previous year. The FGL Sports banners (best known for the Sportchek stores) grew by over 10% on a same-store basis. This number must be especially satisfying for Tire's executives, since they are expanding FGL aggressively, and also were accused of overpaying for acquiring the stores back in 2011.

The financial services segment also posted strong numbers, with operating profit increasing by over 16% from the fourth quarter of 2012. The average receivables balance increased by 7%, but more importantly, Tire was able to earn a 7.3% return on these receivables, a 56 basis point improvement over the year before.

The quarter capped off a very eventful year for Tire. The main highlights included: signing a new agreement with its franchisees, creating a REIT, successfully fending off **Target's** (NYSE:TGT) entry into Canada, and signing many large sponsorship deals (including with the Canadian Olympic team and the Ottawa Senators). The stock, which was trading below $70 per share at the beginning of 2013, is now trading in the high nineties.

Looking ahead, Tire plans to keep pushing ahead aggressively. The company plans to keep expanding the FGL stores, especially Sportchek. Tire is also upgrading its technological capabilities, which includes further developing its loyalty program in Atlantic Canada.

The year ahead could also see a bank becoming a funding partner for Tire's credit card portfolio. Recent deals, such as the one between **Toronto Dominion Bank** (TSX:TD)(NYSE:TD) and **Aimia** (TSX:AIM), demonstrate how much banks are willing to pay for credit card receivables. It's no wonder that Tire's shares jumped by $5 last year just on the news that the company was looking to find a bank partner.

Foolish bottom line

For such a mature retailer, Tire is going through a very exciting time. If the company is able to execute on all of its initiatives, then shareholders could see more years like the last one.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TGT (Target Corporation)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)

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Date
2025/07/04
Date Created
2014/02/14
Author
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