



3 Reasons to Buy Canadian Tire Corporation Limited

Description

Shareholders of **Canadian Tire Corporation Limited** ([TSX: CTC.A](#)) have been on a nice run recently — since the beginning of 2013, the shares have gone up 50%. However, there are still a few reasons why the stock can increase further, and below we take a look at three in particular.

1. The right kind of growth

It's time for a small history lesson. Back in the 1980s, Canadian Tire tried to enter the United States by buying a chain of Whites stores in Texas. It failed miserably. A smaller effort followed in the 1990s, which again flopped.

Because of this history, there is practically zero chance the company will enter the U.S. again. That is probably for the best. Instead, it can focus on growth within Canada, mainly from banners like Sport Chek. This has a much greater chance of success — Sport Chek in particular has proven to be very popular (and profitable), and much of Canada is underserved when it comes to sports retailing.

Compare this situation to that of **Tim Hortons Inc** (TSX:THI)(NYSE:THI). Tim Hortons has very few growth opportunities in Canada, and is instead expanding in the ferociously competitive U.S. market. Shareholders are still waiting to reap the rewards.

2. Immunity from competition

It's time for another history lesson. Back in 1994, when **Wal-Mart Stores, Inc** entered Canada, *Canadian Business* called Canadian Tire a “deer in the headlights”. However, it persevered admirably, so it should have surprised no one that Canadian Tire was also able to stand up to **Target Corporation** last year.

So what's Canadian Tire's secret? Mainly it's the company's footprint, which comes from it being 90 years old. Put another way, Canadian Tire was able to lock up the best real estate locations across the country before the Americans entered. When the American giants did come to town, Canadians had to drive further to get to their stores.

This same dynamic has helped Canadian companies like **Loblaw Companies Limited** ([TSX: L](#)) maintain their leadership position in grocery retail. After all, many people simply aren't willing to drive all the way to the nearest **Costco** to buy food.

3. A growing dividend

Canadian Tire's dividend is not something to write home about; as it stands, the shares yield a mediocre 1.9%. However, that is because it devotes so little of its income to dividends — despite making \$6.91 per share last year, the dividend still only stands at \$0.50 per quarter. Clearly, Canadian Tire would rather spend its dollars on its expansion efforts.

That is steadily changing, though. The dividend has been increased twice in the last 12 months alone. The company can only spend so much money on expansion if it stays in Canada; eventually that dividend will have to be raised drastically. When it is, that could mean a big pop in the share price too.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:L (Loblaw Companies Limited)

Category

1. Investing

Date

2025/09/11

Date Created

2014/07/31

Author

bensinclair

default watermark