The Pros and Cons of Investing in Canadian Tire Corporation Limited

Description

There are very few companies more synonymous with Canada than **Canadian Tire Corporation** (TSX: CTC.A). The retailer of auto parts, sporting goods, home products, and tools recently celebrated its 90-year anniversary, and its presence across Canada certainly reflects its long history in the country.

But is Tire's stock a worthwhile candidate for your portfolio? Below we take a look at two reasons to buy the stock, and two reasons you might want to avoid it.

Why to buy

1. Stability

To establish proper context, one has to go back to 1994, when **Wal-Mart Stores, Inc.** entered the country. *Canadian Business* referred to Tire as a "deer in the headlights", a sentiment shared by many observers. But the company persevered. How?

Quite simply, Tire's 90-year history has allowed it to establish a footprint that is very difficult for competitors to break. It has access to the best real estate in most municipalities, and as a result over 90% of Canadians live within a 15-minute drive of a store.

Fast forward to 2011, and *The Globe and Mail*, referring to the arrival of **Target Corporation**, called it "what could be [Tire's] biggest challenge yet". But this turned out to be completely false as well.

This is exactly what investors should be looking for, since this kind of resistance to competition lowers the risk of an investment. And in Canada, where too many companies are extremely risky, this is a nice relief.

2. The right kind of growth

The success rate when Canadian companies, especially retailers, enter the United States is shockingly poor. One only has to look at companies like Future Shop, or **Tim Hortons Inc.**, or **Royal Bank of Canada** for examples of how tough the environment is.

Tire offers another example, from two failed attempts – one in the 1980s and a smaller one in the early 1990s. So that brings some good news: thanks to past failures, there is no way Tire will try again. Besides, Tire has got its hands full expanding sports retailer Sportchek, which is a much easier undertaking. Investors should be able to breathe easily.

Why to avoid

1. Intensifying competition

Despite Tire's success at fending off competitors in the past, there is always a concern about increasing competition. This is of course an issue for any retailer in North America – how does one deal with the threat of companies like **Amazon.com, Inc**?

This should be especially worrying for Tire, since it is not exactly beloved by all of its customers. Despite some recent efforts to modernize its stores – which should be commended – so-called 'Crappy Tire' still has its critics. And if Canada's customers are simply waiting for a better alternative, eventually the competition will provide one. That would be bad news for Tire's shareholders.

2. Limited upside

Furthermore, Tire is not exactly a growth machine. To illustrate, there were 491 Canadian Tire stores at the end of last year. That's only 7% higher than the number of flagship stores 10 years ago. Growth will come from other banners, such as Sportchek, but this will only deliver so much impact. So there is a strong argument that, thanks to intensifying competition, there's a lot more downside with Tire shares than upside.

That being said, Canadian Tire is still a solid, mature company that can bring some stability to your portfolio. If that is what you're looking for, then this company makes for a compelling option.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

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Date
2025/09/11
Date Created
2014/08/19
Author

bensinclair