



Why Canadian Tire Corporation Ltd Is the Best Retail Stock to Buy

Description

Retail is a very tricky business, and investing in the sector can be a very dangerous game. Down in the United States especially, competition is very intense. And if a company is competing head-to-head with **Walmart** or **Amazon**, the battle can be very tough.

Up in Canada, the environment is not quite as bad, but plenty of retailers have failed to compete effectively, with awful results for their investors. That being said, there's one retailer you should seriously consider for your portfolio: **Canadian Tire Corporation**. Below are two simple reasons why.

1. A strong footprint

Canadian Tire has shown incredible resiliency against new competition, most notably against Walmart when the American behemoth entered Canada in 1994. How has Tire been able to do this?

Quite simply, Canadian Tire has an unbeatable footprint in the country, which comes from the company's 90+ year history. Over numerous decades, Tire has gotten first access to some of the best real estate locations in most municipalities, and as a result, over 90% of Canadians now live within a 15-minute drive of a Canadian Tire store.

As a result, Tire is often seen by consumers as an oversized convenience store chain. To illustrate, the average purchase at a Tire store is only three items, and most customers don't even bother grabbing a cart. So new competitors, even heavyweights like Walmart, have had a tough time breaking these kinds of habits without the best real estate.

And as an investor, this kind of resilience should be very appealing.

2. The right kind of growth prospects

Let's face it: Canada is a small country, and as a result many of our most established retailers have struggled to grow. For example, our three largest grocers all have very limited room to expand, and have thus resorted to (fully priced) acquisitions. Other retailers have tried going into the United States, usually with disastrous consequences.

But Tire is different. First of all, it has already had two United States (mis)adventures, so you can be sure the company won't try again. Its big acquisition has also already happened, when it purchased Forzani Group Ltd for \$771 million in 2011. Now the company is building more of FGL's Sportchek stores across the country, having added 10 locations already in 2014.

Canadian Tire is growing in other ways. For example, it is upgrading its existing flagship stores, many of which currently frustrate its customers. But by converting these stores to so-called "Smart Stores", Tire is able to boost sales. Secondly, the company is increasing its use of technology, which includes an upcoming digital loyalty program. Finally, Tire has launched a pilot "Express Store", which is a scaled-down Tire store meant for more urban locations.

These kinds of growth initiatives are much easier than making a big acquisition, or expanding into a new geography. As investors, this should be music to our ears. It means we should be able to count on Tire for many years to come. Again, this should be very appealing.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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