Could Canadian Tire Corporation Ltd. Shares Reach $150?

Description

On Thursday, **Canadian Tire Corporation Ltd.** (TSX: CTC.A) announced that it is “on offence” with its new three-year growth strategy. It’s not the first time it’s used those words, but this time around, it is truly in attack mode, and investors should benefit greatly.

Nothing wrong with ambition

The company has set very ambitious goals, targeting 3%+ retail sales growth at Canadian Tire stores, 5%+ at Mark’s, and 9%+ at FGL Sports (best known for Sportchek). Over the past couple of years, those numbers have averaged 1.6%, 4.5%, and 5.3%, respectively. So the company is planning to really accelerate its growth.

Tire’s ambitions don’t stop there. The company is pursuing a “generational shift” in its target customer — in plain English, this means going after a younger crowd. Part of this will come from investing in digital technologies, a necessary step in today’s retail environment. For example, Tire will be rolling out a digital version of its Canadian Tire Money, allowing it to collect purchase data from its most loyal customers.

Other positive attributes

Canadian Tire has plenty of other things going for it. For example, its recent credit card partnership with **The Bank of Nova Scotia** will pay big dividends. As part of the agreement, The Bank of Nova Scotia bought a 20% stake in Canadian Tire Financial Services, meaning the two companies are on the same side. Better yet, The Bank of Nova Scotia is committed to growing its credit card business, where it trails its Big 5 peers.

It’s also important to remember Tire’s most important asset: its prime real estate. Over 90% of Canadians live within a 15-minute drive of a Canadian Tire store, and when new competitors enter the country, they must accept less-than-ideal locations. So from an investor’s point of view, Canadian Tire is a very safe stock.

An ideal investment

As part of its strategy, Tire also plans to buy back an additional $400 million worth of shares through the end of 2015. At today's market price of $119 per share, that buyback will cover roughly 4% of the shares outstanding.

It also plans to maintain its dividend policy, which may disappoint some investors — despite two dividend hikes in the past year, the shares still yield less than 2%. It is clear that the company would rather invest its money back into the business. And in the long term, that is likely the best strategy.

Canadian Tire shares have already surged, up 69% since the beginning of 2013. But even at $119 per share, there is still plenty of room to run.

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CATEGORY

1. Investing

TICKERS GLOBAL

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

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1. Investing

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