How Canadian Tire Corporation Limited Will Benefit From the Decline in Oil Prices

Description

Crude oil is now below US$85 per barrel and seems to be heading lower.

We know that falling energy prices are bad for energy companies, but what investors have to remember is that what is bad for one group of companies is usually good for another group of companies. In this case, what is bad for energy companies is good for consumers and companies where fuel makes up a big percentage of costs.

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Lower fuel/energy expense means more disposable income

An increase in disposable income means consumers may spend more in retail outlets such as **Canadian Tire Corporation Limited** (TSX: CTC.A) and other "consumer discretionary" retailers.

Canadian Tire's goals of annualized sales growth of 3%+ at Canadian Tire, 5%+ at Mark's Work Wearhouse, and 9%+ at FGL Sports, are being helped along by an oil price environment that is keeping more money in consumers' pockets. And the company is certainly doing its part too. Its recently released three-year growth strategy includes investing in digital, technology and analytic assets, as well as updating product assortments, marketing, and store layouts.

In the latest earnings report, the company reported a healthy 2.8% increase in same-store sales at Canadian Tire stores, an 8.2% increase at FGL Sports, and a 3.2% increase at Mark's Work Wearhouse. EPS increased 11%. So we can see that the company is already doing well, and that this bump in consumer disposable income should feed into this momentum.

The company is also evaluating possible acquisitions in order to strengthen its positioning in its traditional categories and grab a bigger piece of the pie. The stock trades at 16 times this year's expected EPS and 15.4 times 2015 expected EPS. The expected growth rate in EPS is 4.8% in 2014 and 4.9% in 2015. Based on the thesis that consumers will increasingly have more disposable income, these EPS estimates may be going up in the next while.

Along this theme, another company that appears poised to benefit is **Dollarama** (TSX: DOL). The fact that consumers are getting a break from high energy prices should trickle down to Dollarama's bottom line as well. This company is firing on all cylinders and it appears that things may be about to get better. In its latest quarter, the company reported a 4.2% increase in same store sales, and net income increased 15%. Dollarama also said that the average spending by customers per trip rose 3.1%, as the company is increasingly selling higher priced items.

2 more companies that benefit from lower oil prices

At **Air Canada** (TSX: AC.B), fuel is the single biggest expense. In the company's latest reported quarter, the second quarter of 2014, aircraft fuel was a whopping 29% of revenue and represents 31% of total operating costs. So it is clear to see how the company will benefit greatly from reduced oil prices.

WestJet Airlines Ltd. (TSX: WJA) is another beneficiary of a decline in oil prices. For WestJet, fuel makes up 32% of its operating expense. Of the two airlines, WestJet is the better managed company but both will benefit. In the trailing 12-month period, the company showed a profit margin of 7.2%, an ROE of 17%, and a dividend yield of 1.7%. Air Canada, by contrast, reported a profit margin of 1.37%, an ROE that is negligible, and no dividend.

CATEGORY

1. Investing

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TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:DOL (Dollarama Inc.)

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