Can Canadian Tire Corporation Limited Shares Reach $150?

Description

The past couple of years have been very fruitful for **Canadian Tire Corporation Limited** (TSX: CTC.A) and its shareholders. Since early May 2013, the shares have rocketed from the low $70s to roughly $126 today.

What's gone right for the company? And is there any upside left? Below we take a look.

Here comes Target

When Canadian Tire shares were trading for $70, there were plenty of reasons to hate the company. Growth opportunities were seemingly limited. The stores were generally hated. And most importantly, **Target Corporation** (NYSE: TGT) was coming to Canada. Supposedly, the American giant was going to eat Tire's lunch.

But the skeptics were forgetting an important thing: Tire already had experience defending its turf against a giant American rival, when **Walmart** came to Canada in 1994.

There turned out to be other reasons to like Tire that became apparent in the next few months.

So why have the shares done so well?

It all started in early May, when Tire announced it would use its real estate holdings to create a Real Estate Investment Trust (REIT), following a similar move by **Loblaw Companies Limited** the previous December. Then in 2014, Tire announced a new partnership with **The Bank of Nova Scotia**, which helped unlock the value in its credit card portfolio.

Meanwhile, Target has struggled mightily in Canada. But even if the company had executed perfectly, it would have had a tough time drawing Tire's customers away (as we saw with Walmart).

Is there any upside left?

There's still reason to believe that the party isn't over. The company can still achieve plenty of growth from areas like its Sportchek banner and online sales. But more importantly, the company is making the shopping experience better for its customers. Let me explain.

Canadian Tire has always been known for cluttered stores and unhelpful staff. But that has changed rapidly with its “Smart Store” initiative, which includes an easier-to-navigate format, more staff, and better displays.

Secondly, the company has rolled out its digital Canadian Tire Money program to the rest of Canada, after piloting it in Nova Scotia. This could be a game changer because it will allow the company to collect more data on its most important customers, and offer more relevant promotions.

But are the shares too expensive?

Analysts on average expect Tire to earn not quite $8 per share next year. So based on the current trading price, Tire trades at roughly 16 times forward earnings.

This may sound expensive, but the company should arguably trade higher. Its various new initiatives mean earnings could grow significantly for many years. And Walmart and Target have shown that Tire’s market position is very safe. So there’s every reason to believe that Tire’s shares will keep going up.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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bensinclair