



4 Reasons to Invest in Canadian Tire Corporation Limited Today

Description

Canadian Tire Corporation Limited ([TSX: CTC.A](#)) is one of Canada's largest retailers and its stock has been one of the market's top performers in 2014, rising more than 24%, far outperforming the TSX Composite Index's return of about 1.8%. Even after this strong run, I think there is still plenty of room to the upside, so let's take a look at four reasons why you should consider initiating a long-term position today.

1. A portfolio of industry-leading brands

Canadian Tire Corporation has grown into much more than the automotive parts retailer it began as in 1922. It is now a family of six companies that are comprised of 12 of the country's largest and most popular brands. Here's a list of these six companies and what they do:

- **Canadian Tire:** The company's core business and one of Canada's largest general merchandise retailers, with 493 locations across the country and a "robust" online community. Canadian Tire sells more products each year than any other Canadian retailer.
- **PartSource:** A chain of 91 specialty automotive stores catering to professional and do-it-yourself mechanics.
- **Canadian Tire Financial Services Limited:** The parent company of Canadian Tire Bank, which offers a wide variety of branded financial products and services, such as credit cards, high interest savings accounts, and tax-free savings accounts.
- **Canadian Tire Petroleum:** One of Canada's largest independent gasoline retailers, with 300 agent-operated gas bars, 296 convenience stores and kiosks, and 82 car washes across the country.
- **Mark's:** One of Canada's leading retailers of footwear and apparel, with 383 stores across the country.
- **FGL Sports:** The largest national sporting goods retailer in Canada with 429 stores across the country under multiple banners, including Sport Chek, Hockey Experts, National Sports, Intersport, Pro Hockey Life, and Atmosphere.

2. Strong quarterly earnings results

On November 6, Canadian Tire announced strong third-quarter earnings results, but its stock has remained relatively flat in the weeks since. Here's a quick summary of what was accomplished during the quarter compared to the year-ago period:

- Net income increased 22.5% to \$178.2 million.
- Diluted earnings per share increased 21.2% to \$2.17.
- Total revenue increased 3.9% to \$3.07 billion.
- Same-store sales increased 3.2% at Canadian Tire, 8.5% at FGL Sports, and 6.8% at Mark's.
- Gross profit increased 6% to \$984.6 million.
- The gross margin expanded 70 basis points to 32.1%.
- Operating profit increased 13.8% to \$234.5 million.
- The operating margin expanded 60 basis points to 7.6%.
- Annual dividend increased 5% from \$2.00 to \$2.10 per share.

Year-to-date, Canadian Tire's earnings per share have increased 12.3% to \$5.16 and its revenue has increased 4.2% to \$8.81 billion, which puts it on pace for another record-setting yearly performance.

3. Inexpensive current and forward valuations

At today's levels, Canadian Tire's stock trades at approximately 16.5 times its trailing-12-months earnings per share, which is very inexpensive given the company's long-term growth rate. The stocks' valuation becomes even more intriguing on a forward basis, as the stock trades at less than 16.4 times fiscal 2014's full year earnings per share estimates \$7.54 and only 15.7 times fiscal 2015's estimates of \$7.87.

4. A stable and growing dividend

Canadian Tire is home to one of the market's most stable dividends, which can be attributed to its ample and consistent free cash flow generation. The company has also shown a strong dedication to increasing its returns to shareholders, and this is supported by the fact that it has raised its quarterly dividend payment 12 times since 2003, growing its quarterly payment from just \$0.10 in the third quarter of fiscal 2014 to \$0.55 in the current quarter. Canadian Tire currently pays an annual dividend of \$2.10 per share, which gives it a yield of approximately 1.7% at current levels.

Is now the time to invest in Canadian Tire?

Canadian Tire's stock has rallied more than 24% in 2014 and I think it will continue higher from here, because it has an impressive portfolio of industry-leading brands, the support of strong quarterly and year-to-date earnings results, and trades at inexpensive current and forward valuations. It also has a stable dividend that the company has consistently raised. With all of this information in mind, I think Canadian Tire Corporation Limited represents one of the best investment opportunities in the market today, so long-term investors should take a closer look and strongly consider initiating positions.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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