3 Reasons Why You Should Own Canadian Tire Corporation Limited

Description

When it comes to iconic brands in Canada, it's tough to top **Canadian Tire Corporation Limited** (TSX:CTC.A). The familiar triangular shaped red and green logo is as recognizable to the average Joe as a cup of Tim Hortons coffee or the Toronto Maple Leafs logo. Canadian Tire money has its own folklore as well, much to the bewilderment to folks who aren't familiar with the chain.

But just because a company has an iconic brand doesn't necessarily mean you should own the stock. Kodak might still be the best known brand in photography, and we all know how that story ended up. **Sears** was once one of North America's largest retailers, and it has deteriorated to the point where the company is basically fighting to stay alive.

That isn't the case with Canadian Tire. The company is pretty much firing on all cylinders right now. Here are three reasons why you want to own this retail juggernaut.

1. Great brands

Canadian Tire's management has done a terrific job acquiring other Canadian retail brands over the years. The company bought Mark's Work Warehouse in 2001, and followed it up with a purchase of Forzani Group in 2011, swallowing up the Sport Chek, Nevada Bob's Golf, and Atmosphere brands with the transaction. The company also launched PartSource in 1999, a chain of automotive supply stores.

The common theme of those acquisitions is simple. Canadian Tire management has consistently acquired the best chains in a certain niche. Mark's is Canada's top choice for work clothes, selling more overalls and work boots than anyone else. Sport Chek is the obvious leader in sports equipment, and it's also a dominant player in clothing as well. Sport Chek sells enough winter coats annually to give one to everyone in Saskatoon and St. Johns.

And that's not even counting the main brand, which is visited by more than 80% of Canadians on an annual basis.

2. Financial services

Most Canadian retailers now offer a branded credit card, and pat themselves on the back for getting into financial services. Canadian Tire was one of the first to get into the credit card business, and has been incredibly successful at it. 1 out of every 5 Canadians have had a Canadian Tire branded credit card in their wallet.

Here's how valuable Canadian Tire's financial division is. Back in the summer, the company sold 20% of it to **Bank of Nova Scotia** for $500 million, which also included a $2.25 billion operating line for credit card receivables. That's a great partnership.

At any given point, there are 1.8 million Canadians who collectively owe the company more than $4.2 billion on their credit cards. In fact, you could even make the argument that the financial services division is better than the retail business. After all, there's way less overhead to collect on credit cards than there is to sell stuff.

3. Giving back to shareholders

Some investors might see Canadian Tire's 1.8% dividend and get discouraged. There are certainly better yields out there.

But that's not looking at the whole picture. Instead of focusing on the dividend, investors should pay attention to the company's share buyback program. Management has pledged to spend $400 million buying back stock in 2015, which would eliminate approximately 5% of the company's outstanding shares. Thus, when you combine the two, management is returning just about 7% annually to investors.

Canadian Tire is a retail juggernaut that owns some great brands, while also doing a terrific job at financial services. It's a company you want to own. But we've got another company that might end up being an even better pick. Check out the details below.

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1. Investing

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1. Editor's Choice

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