The Transformation of Canadian Tire Corporation Limited

Description

Let me start by saying that I am optimistic about the consumer these days for the simple reasons that oil has plummeted in the last few months and rates have been cut yet again. These simple facts point to a strong macro environment for retailers, and **Canadian Tire Corporation Limited** (TSX: CTC.A) stands out for its growth prospects as well as its valuation.

There are four factors that make me optimistic.

1. Strong brand awareness among consumers

There are 493 Canadian Tire stores across Canada, a brand that is a part of Canadian history and a fixture in the retail industry. And management is on the offensive, revamping the brand and attempting to make it more relevant by being more targeted in its marketing and by investing in the digital age.

The Canadian Tire of the past did not target a specific customer and was too much of a general retailer, seemingly selling everything yet nothing to get excited about. With this in mind, the goal now is to become more of a specialty retailer under one big roof, using targeted marketing and a focus on brands. Furthermore, the Canadian Tire of the past was years behind other retailers technologically, with no presence in the e-commerce world and a limited ability to track shoppers' habits and use that information to get to know its clients. This has also been changing recently.

2. Leading spot in different retail categories and related businesses

Canadian Tire's automotive business, which includes auto service centres and hard goods departments, PartSource specialty stores, and Petroleum retail outlets, is a key differentiator. Being the highest margin segment of the Canadian Tire stores, management will put more emphasis on automotive going forward, with more marketing and advertising, greater emphasis on customer service, and the ability to service more types of automobiles.

FGL Sports is the largest national retailer of sporting goods. At FGL Sports, the goal is to grow the Sportchek footprint and build a connection with target customers (19- to 34-year-olds). FGL reported 12 positive comparative quarters in a row since it was acquired. Sportchek has had three double-digit same-store sales growth quarters. The company will invest in existing stores and open 10 to 12 new Sportchek stores across Canada. There will be new vendors and partners.

Management has a 5% same-store sales growth goal for Mark's Work Wearhouse. Stores are getting refreshed and are moving into malls, which will open the banner up to a whole new set of customers. There are strong landlord connections via Sportchek that will enable this to happen. The plan is to invest more in marketing as the apparel market is fragmented, and there is an opportunity to capture a larger share of Mark's target market of 35- to 50-year-old males.

3. Financial flexibility

There is almost $600 million in cash on company's balance sheet. Canadian Tire's real estate investment trust (**CT REIT**) owns many of the company's real estate assets, and there is still $1 billion in real estate assets that can be rolled into the REIT. Canadian Tire currently owns 83% of the REIT and plans to reduce that ownership in the next three to five years.

4. Financial services strategy

The financial services segment has seen good growth in receivables and good risk management. The recently formed partnership with **Bank of Nova Scotia**, which bought 20% of the company's receivables, provided liquidity as well as a partner for long-term growth. Going forward, the focus will be on new initiatives like instant credit and better rewards with the SCENE loyalty program, which has almost six million members, mostly under 40.

Bottom line

The company is already on the path to revitalizing its stores and its strategy, and it has achieved very strong same-store sales growth. In the third quarter of 2014, same-store sales at Canadian Tire stores increased 3.2%, 8.5% at FGL Sports, and 6.8% at Mark's.

The retail market in Canada is in the process of being shaken up. **Sears** is in trouble and **Target** is leaving Canada, both of which are positives for Canadian Tire, a company that has strong brand awareness and that already has a presence in Canada that is difficult to match. Canadian Tire is presented with an opportunity to capture a bigger share of consumers' dollars, and it looks like it may very well deliver.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Author
karenjennifer