



Canadian Tire Corporation Limited's Strong Q4 Results Has Ignited a Rally

Description

Canadian Tire Corporation Limited ([TSX:CTC.A](#)), one of Canada's largest retailers and the company behind brands such as Canadian Tire, Mark's, FGL Sports, and Sport Chek, announced fourth-quarter earnings on the morning of February 26, and its stock responded by making a sharp move to the upside. Let's break down the quarterly results to determine if we should consider buying into this rally, or if we should wait for it to subside.

The results that ignited the rally

Here's a summary of Canadian Tire's fourth-quarter earnings results compared to its results in the same quarter a year ago.

Metric	Q4 2014	Q4 2013
Earnings Per Share	\$2.44	\$2.32
Revenue	\$3.65 billion	\$3.33 billion

Source: Canadian Tire Corporation Limited

Canadian Tire's earnings per share increased 5.2% and its revenue increased 9.8% compared to the fourth quarter of fiscal 2013. The company's solid earnings per share growth can be attributed to net income increasing 8.2% to \$206.6 million, which was helped by total costs of revenue production increasing just 8.7% to \$2.44 billion. Its near double-digit increase in revenue can be attributed to same-store sales rising at all of its retail banners compared to the year-ago period, including growth of 2.8% at Canadian Tire, 4.9% at FGL Sports, 9.4% at Sport Chek, and 1.2% at Mark's.

Here's a quick breakdown of eight other notable statistics and updates from the report compared to the year-ago period:

- 1. Gross profit increased 12.1% to \$1.21 billion
- 2. Gross margin expanded 70 basis points to 33.2%
- 3. Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 14.9% to

\$437.5 million

4. EBITDA margin expanded 60 basis points to 12%
5. Income before income taxes increased 10.6% to \$293.4 million
6. Net cash generated by operating activities increased 52.3% to \$483.9 million
7. Total assets increased 6.8% to \$14.55 billion
8. Ended the quarter with \$647.8 million in cash and cash equivalents, an increase of 67.8% from the third quarter and 12.8% from the year-ago period

Canadian Tire also announced that it would be maintaining its quarterly dividend of \$0.525 per share, and the next payment will come on June 1 to shareholders of record at the close of business on April 30.

Should Canadian Tire be on your long-term buy list?

Canadian Tire Corporation is one of Canada's largest retailers, and increased traffic at its many retail brands led it to a very strong fourth-quarter performance, and its stock has reacted accordingly by rising over 5%.

I think the post-earnings pop in Canadian Tire's stock is only the start of a sustained rally higher, because it still trades at attractive valuations, because it has steadily increased its dividend, and because it has ample cash on its balance sheet to pursue acquisitions.

First, Canadian Tire's stock trades at just 17.1 times fiscal 2015's estimated earnings per share of \$7.62 and only 16.3 times fiscal 2016's estimated earnings per share of \$7.98, both of which are inexpensive compared to its long-term growth potential.

Second, Canadian Tire pays an annual dividend of \$2.10 per share, which gives its stock a 1.6% yield at current levels. The company has shown a strong dedication to increase its dividend, and this is shown by the fact that it has increased it 12 times since 2003. I think this makes Canadian Tire's stock qualify as both a value and dividend growth play today.

Third, Canadian Tire ended the fourth quarter with \$647.8 million in cash and cash equivalents on its balance sheet, and I think this leaves it well positioned to pursue acquisitions to further stimulate growth going forward.

With all of the information above in mind, I think Canadian Tire Corporation represents one of the best long-term investment opportunities in the market today. Foolish investors should take a closer look and strongly consider making it a core holding.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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