Is it Too Late to Buy Canadian Tire Corporation Ltd.?

Description

At this time two years ago, **Canadian Tire Corporation Ltd.** (TSX:CTC.A) was not well-liked by investors. Sales numbers were disappointing, and the company seemed stuck in low-growth mode. Customers had a love-hate relationship with the stores. Making matters worse, competition was intensifying, especially with **Target Corporation** coming to Canada.

Today, the story is very different. Sales numbers are strong again, the stores are more customer-friendly, and Target is leaving the country. Thursday offered us yet another example, with Tire reporting better-than-expected numbers for the fourth quarter of last year.

So, how good were these results, and how did the company get to this point? Most importantly, should you invest in the shares today? We take a look below.

More strong numbers

After Tire reported fourth-quarter numbers, it sure doesn't sound like a company struggling with growth. Consolidated revenue rose by 9.8% year-over-year, with all three major banners—Canadian Tire, Mark's Work Wearhouse, and FGL Sports—playing a big part. Adjusted earnings per share rose by 12.8%, mostly driven by this strong revenue growth.

As would be expected, the market has reacted very well to these numbers, sending Tire's shares up 6.6% (as of this writing). The stock price now exceeds $130 per share for the first time ever. Just a couple of years ago, the shares were at $70.

How did we get here?

Two years ago, there was a lot of hidden value in Canadian Tire. The company had a vast real estate portfolio. Its credit card business had not been fully monetized and there was lots of room for growth with FGL Sports (best known for Sportchek). Most importantly, people were shopping at Tire *even though* the store experience fell short.

Over the next couple of years, Tire's hidden value surfaced. First came the real estate portfolio, then the credit card business. Meanwhile, FGL Sports continued to grow. Tire also had some good fortune—most notable was Target botching its Canadian expansion.

That leaves the all-important question: Is there any hidden value left?

So should you buy the shares?

Unlike two years ago, Tire's shares are not particularly cheap, trading at just over 17 times earnings. Still, there are some reasons to like the company.

First of all, as can be seen, there's still plenty of room left for growth, especially at FGL. Furthermore, the company has only scratched the surface of online retailing. As a bonus, Tire has been steadily buying back shares, which also helps grow earnings. Second, Tire has very stable earnings, especially for a Canadian company. For this reason, you should expect to see lots of dividend increases down the road.

Finally, Tire is well-positioned in the declining oil price environment. The reason is simple: with lower gas prices, people are likely to drive more, and thus need more work done on their cars.

I wouldn't be surprised if the good times keep coming for Tire.

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1. Investing

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1. Editor's Choice

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bensinclair