



How Canadian Tire Emerged From the Ashes of a Desolate Retail Sector

Description

The retail sector in Canada has offered little to investors for quite some time now, with low margins and continued encroachment from American competitors. In the past few months we have seen the end of **Target Canada** and we are seeing what could be the downfall of **Sears Canada**. Yet there are a small number of bright spots in the retail sector, with the brightest one being **Canadian Tire** ([TSX:CTC.A](#)).

The hallmark Canadian company has managed to thrive in the past couple of years, and has been mostly unhindered by Target and other American companies. Through a series of brand refocusing efforts over the past couple of years, Canadian Tire has managed to resecure its customer base and bring its stock price to an all-time high.

Winter wonderland

Canadian Tire managed to buck the trend reported by Stats-Can, which showed decreased spending during the past quarter. Canadian Tire and its subsidiaries, Mark's Work Wearhouse, PartSource, Sport Chek, Hockey Experts, Sports Experts, National Sports, Intersport, Pro Hockey Life, and Atmosphere managed to post Q4 revenues of \$3.65 billion. This is an increase over the \$3.3 billion that Canadian Tire earned in revenue in Q4 2013, which beat analysts' expectations of \$3.56 billion.

Profits during the quarter increased to \$206 million (\$2.44 per share) up from \$191 million (\$2.32 per share) during the same period last year. Canadian Tire was able to accomplish these results thanks to same-store-sales increases of 2.8% at Canadian Tire, 4.9% at FGL Sports, and 1.2% at Mark's. The most impressive same-store-sales increase was seen at Sports Chek, which increased by 9.4% during Q4 2014.

Year-end nuggets

Through investments in its digital shopping presence and a refocusing of its automotive department, 2014 revenues climbed to \$12.4 billion, up from \$11.7 billion in 2013. In a year that saw many retailers battle with suppliers and costs, Canadian Tire managed to increase its gross margin from \$3.7 billion in 2013 to \$4 billion in 2014. These results were capped off by a net income of \$639 million (\$7.65 per share) up from \$564 million (6.96 per share) in 2013.

What is most impressive is the fact that Canadian Tire managed to increase its retail same-store sales over the year by 4%. Again, Sport Check saw the largest year-over-year same-store-sales growth with a total of 17.7%.

Is the stock price too rich?

Following the release of the Q4 report, Canadian Tire's stock climbed to a record high of \$133.69 before slipping back down to \$131.72 by Friday. If Canadian Tire can continue its current marketing strategy, these current prices may not be that rich in the long run. The average price target is currently sitting at \$142.00 but following the Q4 report, price targets have begun to soar. The most bullish outlook came from **RBC Capital**, which increased its price target to \$156.00 on February 28.

Canadian Tire still has room for upward momentum, as it continues to enjoy the benefits of its inclusion with the **Bank Of Nova Scotia's** financial programs. Also, Target's failed entry into Canada may turn into an opportunity for Canadian Tire to add locations to its network. The company confirmed this possibility when it stated that "there could be deals available. We're diligently looking."

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