



Momentum at Canadian Tire Corporation Limited Continues, But Will Loblaw Companies Limited Steal its Thunder?

Description

With the release of **Canadian Tire Corporation Limited's** ([TSX:CTC.A](#)) 2014 fourth-quarter and year-end results, we continue to witness a retailer that is transforming from a sleeping giant into a relevant and forward-thinking giant. The environment remains competitive, but with a couple of retailers stumbling, Canadian Tire is presented with an opportunity to capture a larger share of the Canadian consumers' dollar. But will **Loblaw Companies Limited** ([TSX:L](#)) throw a kink in the company's plans? Let's dig deeper.

Review of Canadian Tire's results

In the fourth quarter of 2014, Canadian Tire continued to see healthy same-store-sales growth, with the Canadian Tire banner increasing 2.8%, FGL Sports increasing 4.9%, and Mark's Work Wearhouse increasing 1.2%. Once again, SportChek was the standout performer, with same-store sales increasing 9.4%, while Mark's Work Wearhouse only achieved a 1.2% increase in same-store sales due to a lack of cold seasonal weather late last year.

For the year, same-store-sales growth was also stellar and management reminded investors that 2014 saw the highest annual same-store-sales growth in eight years and positive comparisons in all divisions, and that all divisions were up against strong year-ago numbers. The Canadian Tire banner achieved a 2.4% increase in same-store sales, FGL Sports increased 6.9%, and Mark's increased 3.1%.

Loblaw Companies Limited expansion

Recently, Loblaw announced that it will open over 50 stores in 2015, as it proceeds with plans to invest more than \$1.2 billion in its domestic business this year.

Specifically, the company is focusing on enhancing its food offering at Shoppers Drug Mart and on an enhanced beauty and health offering in the grocery side of the business. It will also be expanding its Joe Fresh line of clothing this year by adding the clothing line to 50 more Loblaw locations. There is an

overlap with Canadian Tire in Loblaw's general merchandise segment as well as the Joe Fresh line, and there would also be a risk that Loblaw could snap up or bid up some old **Target** locations that Canadian Tire is interested in buying. But all in all, Loblaw's expansion does not appear to be too much of a threat to Canadian Tire, given the mostly different product markets they are in.

Positive competitive developments

On the flip side, there have been some very positive developments that should serve to boost Canadian Tire's positioning in the retail landscape. First, the departure of Target, which will be closing 133 stores in Canada. These stores had sales of roughly \$2 billion in 2014. Second, the fast deteriorating situation at Sears, with 2014 revenue that declined 17.7% to \$972.5 million, will provide some relief as Sears' days look to be numbered. So, we have roughly \$2 billion of revenue from Target and almost \$1 billion of revenue at Sears that is ready to be grabbed up by other Canadian retailers.

Wal-Mart is eyeing these revenues, with plans to spend \$340 million to expand in Canada this year, as is Loblaw. But so is Canadian Tire, with plans to spend a higher-than-usual \$575 in capex in the next few years to expand star performer SportChek, to revitalize Canadian Tire and Mark's banners, and to complete its digital transformation (website traffic was up strong double digits in 2014).

The dollar is a drag but oil is a boost

Given that Canadian Tire sources many of its products in the U.S., it has been and will continue to be negatively affected by the decline in the Canadian dollar. But, on the flip side, with the decline in oil, consumers are the big winners. And with more money in their pockets, we can expect retailers to be big winners as well.

In summary, Canadian Tire is a retailer that has strong brand awareness and loyalty, and already has a presence in Canada that is difficult to match. The company is presented with an opportunity to capture a significantly bigger share of consumers' dollars, and it looks like it may very well deliver.

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2. TSX:L (Loblaw Companies Limited)

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