3 Reasons to Buy Canadian Tire Corporation Ltd.

Description

In recent years, we've seen some pretty high-profile failures in the retail space, from **Target** to **Sears** to **Future Shop.** Clearly, it's a tough environment out there, one in which weak players can perish quickly. So, investors can be forgiven for avoiding the sector altogether.

But through it all, **Canadian Tire Corporation Ltd.** (TSX:CTC.A) has continued to flourish. Its stock price has responded in kind, having increased by 85% in the past three years. Yet as I argue below, there's still plenty of room to run.

So, on that note, below are three reasons to include Canadian Tire in your portfolio.

1. An improving environment

It's amazing just how much can change in a couple of years. At this time in 2013 Target was entering Canada, and **Wal-Mart** was planning a big Canadian expansion in response. As the narrative went, increasing competition would drive prices down, ruining everyone's bottom line.

Flash forward to today and that scenario simply hasn't played out. Target's failure is a big reason, but we've also learned the retailer hasn't been able to sell 55 of its leases. In other words, Canada's other retailers aren't expanding at will just for the sake of it.

If you're looking for another clue, Wal-Mart Canada no longer offers unlimited free shipping for online orders, something it began offering when Target came to Canada. Clearly, Wal-Mart doesn't feel the same pressure as it did before, and the same could likely be said for Canadian Tire.

2. A strong presence

Target's expansion wasn't the first time Canadian Tire had to face a big American competitor. A little over 20 years ago, both Wal-Mart and **Home Depot** came to Canada, and many prognosticators predicted tough times for Canadian Tire. *Canadian Business* even used the phrase "deer in the headlights."

Yet Tire had a unique advantage: its real estate. Thanks to the company's long history (72 years at that time), it had snapped up some of the best locations in the country. Meanwhile, the new entrants had to settle for less-than-optimal locations.

Canadian Tire still has this advantage today. In fact, over 90% of Canadians live within a 15-minute drive to a Canadian Tire store. So, I would expect the company to continue holding its ground against the competition. This should be music to any shareholder's ears.

3. Plenty of growth opportunities

At first glance, Canadian Tire seems like a company with no growth prospects. After all, it is well established in Canada. And there are no plans to go international, especially after two failed attempts at U.S. expansion (in the 1980s and 1990s).

But beneath the surface, there are plenty of opportunities for growth. The Sport Chek banner still has room to run. The company is also rolling out smaller versions of its stores (which are perfect for shopping malls). The online business is still in its infancy.

So, I would expect Canadian Tire to achieve many years of steady, predictable growth. And with the stock trading at 16.5 times earnings, you don't have to pay too much to participate.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Author
bensinclair