As Target Canada Loses, Canadian Tire Corporation Limited Wins

Description

When **Target Corporation** came to Canada two years ago, **Canadian Tire Corporation Limited** (TSX:CTC.A) was not a popular stock to own. After all, Tire had a love-hate relationship with its customers, and as the narrative went, Target was going to swoop in and steal some significant market share.

Fast forward to today and the story is very different. Target's Canadian adventure has turned into a disaster. Tire has improved the quality of its stores and its stock price has taken off. Better yet, the retail environment isn't nearly as scary as it was two years ago.

In fact, Canadian Tire arguably is better off than it would have been if Target had never come to Canada in the first place. Below we take a closer look why.

Buying out the leases

On Wednesday Tire announced that it would take over 12 leases on former Target Canada stores. The move adds about 400,000 square feet of retail space and costs Tire $17.7 million. This is a big purchase by Tire. To put this into perspective, the company has only added eight flagship Canadian Tire locations in the last four years.

Tire can make very good use of these leases, especially compared with five years ago. The Mark's banner has been performing well recently, and is benefiting from its rebranding (remember, this used to be called Mark's Work Wearhouse).

Sport Chek is another strong banner and will likely play a big part in these leases. Before being acquired in 2011, the sports retailer was much more prevalent in western Canada—Tire has since been increasing Sport Chek's eastern presence. Interestingly, only four out of these 12 new leases are west of Winnipeg.

A nice retail environment

In the United States, retailing is not a fun industry to be in. Competition is brutal; shoppers have become accustomed to big discounts; and **Amazon** is threatening to eat everyone's lunch.

In Canada, the story is quite different. Competition is much lower, and the established players (such as Canadian Tire) have most of the best real estate. Retailing in Canada has even been described as "an old boys club," something that Target found out the hard way.

And now that Target is gone, the environment is even better. If you don't believe me, just look at **Wal-Mart's** recent decision to scrap unlimited free shipping for online orders. This may not be good news for shoppers, but it's much better news for investors.

Slow and steady wins the race

There's another reason to like Canadian Tire's future: it has plenty of growth opportunities, but isn't in a big rush to pursue any of them.

For example, the company is slowly adding more small-format stores. The online business is gradually ramping up, as are other digital initiatives—Tire refers to this as "a 36-month journey." Compare this with Target, which opened over 100 locations at once with disastrous consequences.

To conclude, even though Tire's shares are up 75% in two years, there's still plenty of upside. Especially now that Target Canada is no more.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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