



Canadian Tire Corporation Limited Is Well Known But Misunderstood

Description

Canadian Tire Corporation Limited ([TSX:CTC.A](#)) has been around for over 90 years, but remains misunderstood, especially by the investment community.

So, to clear the air, I highlight three false beliefs about Canadian Tire in an attempt to set the record straight.

False belief #1: this is a zero-growth company

There's a common belief that Canadian Tire has reached its revenue peak, and growth will be hard to come by. It's easy to see why people believe this: in the past decade the number of flagship Canadian Tire stores has increased by only 0.7% per year. Furthermore, any international expansions are out of the question after two botched attempts in years past.

But beneath the surface, there are plenty of opportunities for growth. Online sales are still in their infancy. The roll-out of FGL stores (best known for its Sport Chek banner) is still not complete. Smaller format stores, known as Express Stores, are also just getting off the ground. There are more opportunities for the Financial Services segment.

Tellingly, earnings per share increased by 10% last year and 13% the year before. I expect many more years of solid growth.

False belief #2: the stores are a pain to shop in

For years, even decades, Canadian Tire has frustrated many of its shoppers, with cluttered aisles, hard-to-navigate stores, and poor customer service.

But in recent years, the vast majority of its stores have gone through a big makeover. Tire refers to these new-format locations as "Smart Stores" and the difference is quite remarkable. As of the end of last year, 337 of Tire's stores had earned "Smart Store" status, and 96 others had been updated or remodeled. Only 36 so-called traditional stores remain.

This is a critical point to make, because investors always seem to think Tire is very vulnerable to competition. Which leads us to false belief number three.

False belief #3: competitors will eat Tire's lunch

Back in the mid-1990s, both **Home Depot** and **Wal-Mart** came to Canada, and many observers thought Tire was doomed. One consultant even used the phrase "deer in the headlights." Then when **Target** arrived two years ago, *The Globe and Mail* said it could be Tire's "greatest challenge yet."

Yet Tire has not only survived, it has prospered, even in the face of increased competition. There are a number of reasons for this, but I'd like to highlight one in particular: its prime real estate.

In retailing, location is very important. And thanks to Tire's 90+ year history, it has the best locations in Canada locked up. In fact, over 90% of Canadians live within a 15-minute drive from a Canadian Tire store. So, in a sense Canadian Tire can be thought of as an oversized convenience store. That makes life very difficult for the competition.

More importantly, it makes Tire a relatively safe investment, no matter how many misperceptions are floating around.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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