



3 Reasons Why Canadian Tire Corporation Limited Belongs in Every Portfolio

Description

Canadian Tire Corporation Limited ([TSX:CTC.A](#)), one of the largest retailers in Canada, has watched its stock widely outperform the overall market in 2015, rising over 8.5% compared with the TSX Composite Index's return of just over 3%, and I think it could continue to do so for the two to three years at the very least. Let's take a look at three of the primary reasons why this could happen and why you should consider buying shares today.

1. Strong first-quarter earnings to support a sustained rally

On May 14 Canadian Tire released very strong first-quarter earnings results, and its stock has responded by rising over 6% in the trading sessions since. Here's a breakdown of 12 of the most notable statistics from the report compared with the year-ago period:

1. Net income increased 16.7% to \$88.3 million
2. Diluted earnings per share remained flat at \$0.88 despite owning 20% less of its Financial Services business
3. Revenue, excluding petroleum, increased 2.2% to \$2.12 billion
4. Revenue increased 0.1% to \$2.46 billion in its Retail segment
5. Revenue increased 11.8% to \$92.4 million in its CT REIT segment
6. Revenue increased 7.5% to \$284.5 million in its Financial Services segment
7. Same-store sales increased 4.7% at Canadian Tire, 8.6% at FGL Sports, and 5.5% at Mark's
8. Gross profit increased 5.6% to \$882.1 million
9. Gross margin expanded 260 basis points to 35.1%
10. Earnings before interest, taxes, depreciation, and amortization increased 15.5% to \$245.3 million
11. Income before income taxes increased 20% to \$124.3 million
12. Total store count increased 0.7% to 1,694 and total retail square footage increased 2.6% to 31.5 million

2. The stock trades at inexpensive valuations

At today's levels Canadian Tire's stock trades at just 16.8 times fiscal 2015's estimated earnings per

share of \$7.95 and only 15.3 time fiscal 2016's estimated earnings per share of \$8.77, both of which are inexpensive compared with its long-term growth rate and the industry average price-to-earnings multiple of 16.1.

I think Canadian Tire's stock could consistently command a fair multiple of at least 18, which would place its shares upwards of \$143 by the conclusion of fiscal 2015 and upwards of \$157.75 by the conclusion of fiscal 2016, representing upside of more than 6% and 17%, respectively, from current levels.

3. A dedication to maximizing shareholder returns

Canadian Tire pays a quarterly dividend of \$0.525 per share, or \$2.10 per share annually, giving its stock a 1.6% yield at current levels. A 1.6% yield is not high by any means, but it is very important to note that the company has increased its dividend 12 times since in the last 12 years, and its consistent free cash flow generation could allow for another increase in the near future.

Should you buy shares of Canadian Tire today?

I think Canadian Tire represents one of the best long-term investment opportunities in the market today. It has the support of strong first-quarter earnings, its stock trades at inexpensive forward valuations, and it has shown a strong dedication to maximizing shareholder value through the payment of dividends. All Foolish investors should take a closer look at Canadian Tire and strongly consider making it a core holding today.

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1. Dividend Stocks
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TICKERS GLOBAL

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

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Date

2025/09/11

Date Created

2015/05/19

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