



Is Canadian Tire Corporation Limited Canada's Best Retailer?

Description

In 2015 Canada's retail sector is a tough one to be in.

Sales overall are struggling for a few reasons. Firstly, many pundits are saying the Canadian consumer is tapped out. Debt-to-disposable income levels are the highest they've ever been, recently surpassing 162%. That's about the same level where they peaked in the United States during its housing boom. If the country collectively deleverages, that's bad news for retailers.

Additionally, competition is strong. Canada's has a bunch of retailers with good management, solid business plans, and the balance sheet strength to be able to endure low margins. Competition from U.S.-based chains hasn't helped either, although the industry did score a collective win when **Target** left Canada with its tail between its legs earlier this year.

These two factors have really hurt some of the weaker players in the sector. **Reitmans** shares have struggled, especially after the company cut its dividend back in 2013. And with each successive quarter of losses, **Sears Canada** looks more and more like it'll eventually succumb to bankruptcy.

Still, there are still some winners in the sector, some of which are even trading at reasonable valuations. **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)) has been one of those winners, rising more than 120% in the past five years, excluding dividends.

But how about the next five years? Will Canadian Tire still be a winner then? I think so. Here's why investors should continue to buy the stock even after the big run-up.

Still reasonably valued

One big thing to like about Canadian Tire is the valuation. It trades at less than 17 times earnings, which puts it at a bit of a discount compared with others in the sector.

Earnings for next year look even better, with analysts estimating that the company will earn \$8.88 per share in 2016. That puts shares at just 14.4 times forward earnings, which is very reasonable.

Where else in the Canadian retail sector can investors find that kind of combination of growth and fair valuations?

Diverse brands

Canadian Tire has done a terrific job acquiring niche retailers.

It started off with the company's acquisition of Mark's Work Warehouse, which was followed up by buying Forzani Group, which had Sport Chek as its flagship brand. Additionally, it launched PartSource, where folks can buy auto parts.

Each of these stores serves a very specific niche, which has been instrumental to their success. Mark's doesn't just sell clothes, it sells clothes for people who need something durable. That sort of differentiation is important in a world where a pair of pants is just as commoditized as a barrel of oil.

Financial services

The world of retail can be a brutal place. Margins are tight, loss leaders are common, and everyone sells the same products.

The world of financial services is a far more attractive business. Financing the sale of something can be more attractive than making the sale in the first place. And that creates brand awareness that can be exploited later on. About 20 years ago, getting a mortgage at a bank owned by a retailer would have been laughable. Now? Folks are more than happy to stuff store-branded credit products into their wallets.

Canadian Tire's financial services unit is so valuable that **Bank of Nova Scotia** paid \$500 million for just 20% of it back in 2014. And remember, there's still all sorts of growth potential in the space too, including going back into mortgages at some point in the future.

Canadian Tire is a terrific retailer that is getting great sales growth from not only the flagship brand, but from its other niche retailers as well. Combine that with the stock's reasonable valuation and the growth potential in financial services, and it's easy to see a bullish case for the company. Heck, it's not even much of a stretch to call it Canada's most attractive retailer.

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1. Investing

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1. Editor's Choice

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