



Is the Earnings-Induced Weakness in Canadian Tire Corporation Limited a Buying Opportunity?

Description

Canadian Tire Corporation Limited ([TSX:CTC.A](#)), one of Canada's largest retailers and the company behind retail brands such as Canadian Tire, Mark's, FGL Sports, and Sport Chek, announced second-quarter earnings results before the market opened on August 13, and its stock responded by falling over 3% in the trading session that followed. Let's take a closer look at the results to determine if this weakness represents a long-term buying opportunity, or if we should wait for an even better entry point in the trading sessions ahead.

The results that sent its shares lower

Here's a summary of Canadian Tire's second-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Earnings Per Share	\$2.15	\$2.20	\$2.12
Revenue	\$3.26 billion	\$3.25 billion	\$3.17 billion

Source: *Financial Times*

Canadian Tire's earnings per share increased 1.3% and its revenue increased 2.9% compared with the second quarter of fiscal 2014. Impressively, the company achieved this growth despite two significant negative factors, including an \$0.18 reduction in earnings per share due to its sale of 20% of its financial services business in the fourth quarter of fiscal 2014, and a 13.8% decline in petroleum sales due to lower gas prices. Excluding petroleum sales, Canadian Tire's revenue increased 6.3%.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Net income increased 4.1% to \$186.2 million
2. Revenue increased 2.6% to \$2.95 billion in its retail segment

3. Revenue increased 3.4% to \$276.7 million in its financial services segment
4. Revenue increased 11.8% to \$93.3 million in its CT REIT segment
5. Same-store sales increased 3.2% at Canadian Tire, 4.8% at FGL Sports, 8.6% at Sport Chek, and 2.9% at Mark's
6. Gross profit increased 3.8% to \$1.05 billion
7. Gross margin expanded 30 basis points to 32.3%
8. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 2.7% to \$384.4 million
9. Adjusted EBITDA margin remained unchanged at 11.8%
10. Income before income taxes increased 4.1% to \$256.7 million

Canadian Tire also announced that it will be maintaining its quarterly dividend of \$0.525 per share, and the next payment will come on December 1 to shareholders of record at the close of business on October 31.

Should you buy or avoid Canadian Tire's stock on the dip?

It was a very good quarter overall for Canadian Tire, regardless of what analysts had expected, so I do not think the post-earnings drop of over 3% was warranted. With this being said, I think the drop represents nothing more than a long-term buying opportunity. Its stock now trades at very attractive valuations and has become one of the top dividend-growth plays in the retail industry.

First, Canadian Tire's stock trades at just 15.8 times fiscal 2015's estimated earnings per share of \$7.99 and only 14.4 times fiscal 2016's estimated earnings per share of \$8.76, both of which are inexpensive compared with the industry average price-to-earnings multiple of 32 and its long-term growth potential.

Second, Canadian Tire pays an annual dividend of \$2.10 per share, which gives its stock a 1.7% yield at today's levels. A 1.7% yield may not impress you at first, but it is very important to note that the company has increased its annual dividend payment for four consecutive years, and its 5% increase in November 2014 puts it on pace for 2015 to mark the fifth consecutive year with an increase, and its consistent free-cash flow growth could allow this streak to continue for another five years at least.

With all of the information above in mind, I think Canadian Tire represents one of the best long-term investment opportunities in the market today. Foolish investors should strongly consider making it a core holding.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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jsolitro

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