3 Reasons Why Canadian Tire Corporation Limited’s Shares Are Headed Higher

Description

Canadian Tire Corporation Limited (TSX:CTC.A), one of Canada’s largest retailers of general merchandise, automotive products, sporting goods, apparel, and fuel, has taken a beating since June 24, falling about 9% as the TSX Composite Index has fallen just over 7%, but I think it could rebound and head significantly higher from here. Let’s take a look at three of the primary reasons why this could happen and why you should consider making it a core holding today.

1. Its strong financial results could support a rally

On the morning of August 13, Canadian Tire released very strong earnings results for its three and six-month periods ending on July 4, 2015, but its stock has responded by falling over 4.5% in the weeks since.

Here’s a summary of 10 of the most notable statistics from the first half of fiscal 2015 compared with the first half of fiscal 2014:

1. Net income increased 7.9% to $274.5 million
2. Diluted earnings per share increased 0.9% to $3.02
3. Total revenue increased 0.6% to $5.77 billion
4. Retail sales increased 2.3% to $6.32 billion
5. Same-store sales increased 3.7% at Canadian Tire, 6.4% at FGL Sports, and 4.0% at Mark’s
6. Gross profit increased 4.6% to $1.93 billion
7. Gross margin expanded 130 basis points to 33.5%
8. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 7.3% to $629.7 million
9. Adjusted EBITDA margin expanded 70 basis points to 10.9%
10. Cash generated from operating activities increased 38.4% to $365 million

2. Its stock trades at inexpensive forward valuations

At current levels, Canadian Tire’s stock trades at just 16 times fiscal 2015’s estimated earnings per share of $7.78 and only 14.5 times fiscal 2016’s estimated earnings per share of $8.56, both of which are inexpensive compared with the industry average price-to-earnings multiple of 31.5 and its long-term growth potential.

I think Canadian Tire's stock could consistently command a fair multiple of at least 18, which would place its shares upwards of $140 by the conclusion of fiscal 2015 and upwards of $154 by the conclusion of fiscal 2016, representing upside of more than 12% and 23%, respectively, from today's levels.

3. It has shown a strong dedication to maximizing shareholder value

Canadian Tire pays a dividend and has been actively repurchasing its shares, which will continue to make it very popular with investors.

First, Canadian Tire pays a quarterly dividend of $0.525 per share, or $2.10 per share annually, which gives its stock a 1.7% yield at current levels. The company has also increased its dividend for five consecutive years, and its consistent free cash flow generation could allow this streak to continue for the foreseeable future.

Second, Canadian Tire is in the midst of completing a $400 million share repurchase program that it announced in October 2014, with approximately $244.3 million worth of its shares repurchased to date, leaving approximately $155.7 million remaining to be repurchased by the end of the year. These repurchases will not only boost earnings-per-share growth going forward, but will also increase the market value of its remaining shares.

Is now the time for you to buy Canadian Tire?

I think Canadian Tire will be one of the market's top performing stocks in both the short and long term. Its strong financial performance in the first half of fiscal 2015 could support a rally, its stock trades at inexpensive forward valuations, and it has shown a strong dedication to maximizing shareholder value through dividends and share repurchases. All Foolish investors should strongly consider establishing positions today.

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1. Editor's Choice

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