Is Canadian Tire Corporation Limited the Best Retailer in Canada?

Description

Retail is a tough business.

Even if a retailer just leases their space, it's still a capital-intensive venture. Things like equipment and inventory costs a lot of money, too. And the rise of Internet shopping has taken away any edge in margin a retailer might get by stocking niche products. It's easy to find even the rarest items on the web, and quick shipping options mean impatient buyers don't have to wait long for delivery.

Because of these factors, many investors avoid the retail space completely, content in putting their money to work in sectors that aren't so capital intensive. As a result, many of Canada's top retailers are trading at depressed prices, even though they have a steady history of profitability and growth.

One of Canada's largest retail stocks is **Canadian Tire Corporation Limited** (TSX:CTC.A). Here are three reasons why you should consider adding this stock to your portfolio.

Great brands

Canadian Tire has four major retailing areas. It has the namesake Canadian Tire stores, Sport Chek and a few other sports-related brands, as well as Mark's for clothing and Part Source for all things automotive.

Management has done a terrific job positioning each of the brands. There are certainly cheaper places to buy skates or a winter jacket, but consumers are willing to pay a higher price for quality. All of the different brands do a good job on customer service as well.

Sales at all its stores are doing well. In the most recent quarter, Canadian Tire same-store sales were up 2.8%, sports were up 8.2%, and Mark's posted an increase of 3.2%. This led to profits that were up 18% compared with the same quarter last year.

Financial services

One of the reasons why Canadian Tire is able to consistently post higher net margins than most of its competitors is because of the size of its financial services division.

In 2014, financial services alone did more than $1.1 billion in revenue, which puts that part of the business at about the same size as the whole Mark's chain. Most of that revenue came from credit card receivables, but it also makes money by selling extended warranties and by offering insurance and retail deposits.

Canadian Tire's credit card is among the most popular cards in Canada. There are more than 1.8 million active accounts that currently have a balance, with $4.7 billion in capital borrowed. After write-offs, the company posted a 7.4% return on that capital in 2014.

The financial services part of the business is so attractive that **Bank of Nova Scotia** recently got in on the action, buying 20% of the financial services division for $500 million in 2014.

Giving back to shareholders

Canadian Tire has also been a fine steward of shareholder capital, making a number of shareholder-friendly moves over the past few years.

It spun out its real estate into a publicly traded REIT while still maintaining control of the new entity. It used the proceeds from that and the Bank of Nova Scotia transaction to pay down debt and accelerate the share-buyback program. Since June 2014, it has bought back nearly 4% of its outstanding shares.

Canadian Tire has also been aggressive in raising the regular quarterly dividend. In 2014, the dividend started off at $0.44 per share. It's been hiked twice since then and is currently sitting at $0.525 per share. And with a payout ratio of just 27% of earnings, there looks to be plenty of room for additional increases. Currently, shares yield 1.8%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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