Is Canadian Tire Corporation Limited a Buy After a 17% Pullback?

Description

Canadian Tire Corporation Limited (TSX:CTC.A) has fallen close to 17% from its 52-week high of $137 to under $114. Is now a good entry point?

First, let's see if Canadian Tire is the kind of business that you want to be a part owner of.

The business

Canadian Tire Corporation was founded in 1922, and it provides everyday products and services to Canadians. Canadian Tire owns a family of businesses, including iconic brands such as Canadian Tire retail stores, PartSource, Gas+, Sport Chek, and Mark's, to name a few.

Its businesses also include Canadian Tire Financial Services, **CT Real Estate Investment Trust** (TSX:CRT.UN), and Canadian Tire Jumpstart, a charity dedicated to removing financial barriers, so kids across Canada can participate in sports and physical activities.

Canadian Tire Corporation has a majority interest of 83% in CT REIT, so it has control over its real estate properties.

Altogether, Canadian Tire has more than 1,700 retail and gasoline outlets across the nation. Its retail business, which consists of categories like automotive, living, fixing, playing, and apparel, contributed $11.4 billion to its 2014 revenue.

Its financial services business contributed $1.1 billion of revenue.

Stellar earnings track record

Since 1995, Canadian Tire's earnings per share (EPS) has been in a long-term uptrend. Over almost 20 years, it only had three years when it had negative earnings. From 2007 to 2014, its EPS increased by a compound annual growth rate of 6%, even though in 2009 its earnings dropped by 12%.

Dividend

While Canadian Tire froze its dividends in 2009 during the financial crisis, the retailer has increased dividends for five years in a row. It last increased it in January 2015 at an annualized rate of 20%.

However, going forward, expect Canadian Tire's dividend to grow according to its earnings growth. The company has a policy to maintain dividends equal to 25-30% of the prior year's earnings. Its 2014 payout ratio was 26%.

Change

Canadian Tire Corporation recognizes the importance of e-commerce. The retailer is improving the digital experience across its major retail banners, including e-commerce channels. It's also launching the initial phase of a mobile wallet pilot program.

Partnership with Bank of Nova Scotia

Canadian Tire Corporation has a partnership with the **Bank of Nova Scotia.** The bank bought a 20% interest in Canadian Tire's financial services business. The partnership can give rise to co-marketing opportunities to improve customer loyalty and generate more sales.

In conclusion

Although Canadian Tire shares have pulled back 17%, the shares are actually trading at a fair value with a multiple around 14.2. If you're looking for a solid business with a strong brand and you're willing to pay a fair price for it, Canadian Tire may be what you're looking for.

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1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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kayng