4 Reasons to Buy Canadian Tire Corporation Limited Right Now

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 widely outperformed the overall market in 2015, rising more than 1.5% as the S&P/TSX Composite Index has fallen over 8%, and I think it will continue to do so over the next several years. Let's take a look at four of the primary reasons why I think this will happen and why you should be a long-term buyer of the stock today.

1. Its strong earnings results could support continued rally

On November 12, Canadian Tire released very strong earnings results for its 13- and 39-week periods ended on October 3, 2015, and its stock has responded by rising nearly 10% in the trading sessions since. Here's a summary of 10 of the most notable statistics from the first 39 weeks of fiscal 2015 compared with the same period in fiscal 2014:

1. Net income attributable to owners of Canadian Tire Corporation increased 5.2% to $434.2 million
2. Diluted earnings per share increased 9% to $5.62
3. Total revenue increased 1% to $8.9 billion
4. Same-store sales increased 3.6% at Canadian Tire, 6.8% at FGL Sports, and 2.6% at Mark's
5. Gross profit increased 4.4% to $2.96 billion
6. Gross margin improved 100 basis points to 33.2%
7. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 11.3% to $1.04 billion
8. Adjusted EBITDA margin improved 100 basis points to 11.7%
9. Cash generated from operating activities increased 17.3% to $735.6 million
10. Weighted-average number of common and Class A non-voting shares outstanding decreased 3.5% to 77.19 million

2. It trades at inexpensive forward valuations

At today's levels, Canadian Tire's stock trades at 15.5 times fiscal 2015's estimated earnings per share of $8.04 and 14.5 times fiscal 2016's estimated earnings per share of $8.59, both of which are inexpensive given its 6.5% long-term growth rate and the industry average price-to-earnings multiple of 28.4.

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

3. It has been repurchasing its shares

Canadian Tire has been actively repurchasing its Class A non-voting shares over the last few years, including 2.6 million shares for a total cost of approximately $290.6 million in fiscal 2014 and 2.54 million shares for a total cost of approximately $322.3 million in the first 39 weeks of fiscal 2015.

Also, on November 12 the company announced that its board of directors approved a $550 million share-repurchase program, which it expects to complete by the end of 2016.

This repurchase activity will help boost Canadian Tire's earnings-per-share growth going forward and make its remaining shares more valuable than ever.

4. It is a dividend-growth play

Canadian Tire pays a quarterly dividend of $0.575 per share, or $2.30 per share annually, giving its stock a 1.8% yield. This 1.8% yield may not seem impressive at first, but it is very important to note that the company has raised its dividend for five consecutive years, and its 9.5% increase announced on November 12 puts it on pace for 2016 to mark the sixth consecutive year with an increase.

Should you add Canadian Tire to your portfolio?

Canadian Tire represents one of the best long-term investment opportunities in the market today, so all 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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