Canadian Tire Corporation Limited: 2015 Year-End Review

Description

Canadian Tire Corporation Limited's (TSX:CTC.A) stock is currently trading at $120.99, which means that it is pretty much flat for 2015. Although this is the case, it does not take away from the fact that the company has had good progress on its strategy this year, with continued momentum, increasing margins, and healthy same-store sales growth.

Focus on top-line growth through improved advertising

One goal that the company outlined when management initially laid out its strategy was to reach the younger demographic by improving and more effectively targeting its advertising campaigns. The company believes it has made good progress to this effect as they are seeing a response from this demographic.

Looking at the numbers, revenue growth this year has been strong and consistent. For the first nine months of 2015, the Canadian Tire banner, which accounts for 52% of total revenue, saw a 3.6% increase in same-store sales, which compares to a 2.2% increase in same-store sales in the same period last year. Accelerating sales growth is showing building momentum for this banner.

FGL Sports, which accounts for 16.1% of revenue, saw a 6.8% increase in same-store sales, and Mark's, which accounts for 7.8% of revenue, saw a 2.6% increase in same-store sales. The petroleum division is struggling, as expected, with retail sales down 13.3%.

Using data to guide profitability

Another important aspect to Canadian Tire's new strategy is to make better use of customer, buying, and inventory data through better digital systems and better use of these systems.

In the first nine months of the year, operating expenses declined 48 basis points and gross margins increased 108 basis points to 33.2% as the company is further ahead than expected in the plan to take costs out of the business.

Returning cash to shareholders

The company continues to also focus on returning excess cash to shareholders. In the latest quarter (third quarter) Canadian Tire increased the dividend 9.5% from $2.10 to $2.30 per share. This is the sixth dividend increase in the last five years and is in line with the company's policy of paying 25-30% of prior year's normalized earnings. The company has also stated that they will buy back $500 million in shares as management believes the shares represent good value.

In closing, the CEO of the company has said that he has more confidence today in the company's ability to continue to gain and build on the momentum that it has seen these past few quarters. They have more cash than ever and, according to him, they have a better understanding of the business.

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1. Editor's Choice

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