



Canadian Tire Corporation Limited Will Continue to Build Momentum in 2016

Description

In a brutal start to 2016, all stocks are hurting. **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)) is no exception, having declined almost 5% already year-to-date.

But let's take a step back and look at the bigger picture as we focus on the outlook for the company in 2016.

Household debt is high, but consumers have kept spending

While weak energy prices have hurt consumer spending out west, the weak Canadian dollar has been helping certain industries, such as the manufacturing sector in the central provinces, and this has resulted in a stronger consumer in provinces such as Ontario.

Sure, Mark's, which represents roughly 8% of sales, will probably continue to struggle as it specializes in industrial work wear and almost 20% of its stores are in Alberta, but the rest of the company is not as vulnerable to the western economy.

Although consumer spending is a wild card and it depends on many factors, such as interest rates, the real estate market, and employment, I don't think the consumer will fall apart in 2016 as interest rates remain low and there are pockets of strength in the economy.

The biggest caveat though is the fact that household debt is at a record 164% of disposable income, and this puts into question the ability of consumer spending to maintain strong growth. Therefore, I would only invest in a retailer that I believe will be taking market share from its competitors, as I believe Canadian Tire is doing and will continue to do in 2016.

The weak Canadian dollar will continue to hurt profitability

A significant portion of the company's products are purchased in U.S. dollars, and this will impact profitability, as these purchases have become more expensive. However, the company has been working on improving productivity and efficiencies, and has offset this.

Management expects improvements to continue in 2016. For the first nine months of 2015, operating expense declined 48 basis points and gross margins increased 108 basis points to 33.2%. The company is currently further ahead than expected in its plan to take costs out of the business, and this should continue in 2016.

Canadian Tire should do well as it continues to improve the business

Automotive, home, and sports gear were areas of strength in the third quarter of 2015, and I would expect that to continue, especially the strength in automotive segment. New products, new and improved marketing with more targeted advertising, and new and improved Sport Chek stores will all contribute to an improved business that, in my view, will attract consumer dollars.

In addition to this, the company continues to improve its e-commerce business, and the home delivery option that will be offered will be a positive for 2016.

In closing, Canadian Tire trades at 13.6 trailing earnings with an expected accelerating EPS growth profile through to 2017. This compares to **Dollarama Inc.** ([TSX:DOL](#)), which is trading at 26.6 times trailing earnings with an expected slowing growth profile, and **Wal-Mart Stores Inc.** ([NYSE:WMT](#)) which is trading at 13.6 times trailing earnings with declining earnings expected.

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1. NYSE:WMT (Wal-Mart Stores Inc.)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:DOL (Dollarama Inc.)

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