What Makes Canadian Tire Corporation Limited Such a Low-Risk Stock?

Description

It seems that every day we're getting new warnings about the state of the Canadian economy. The latest one came from the Organization for Economic Co-operation and Development, which cut its growth projection for Canada from 2% to 1.4%. Other forecasts are even dimmer.

Yet there's one company that seems to be bucking the trend: **Canadian Tire Corporation Limited** (TSX:CTC.A). The company just released its results for the fourth quarter of 2015, and profit actually increased to $3.01 per share, up 17% year over year.

And the weak Canadian economy was not Canadian Tire's only headwind. The company is also dealing with a warm winter, which means people are buying fewer items to deal with the weather. The weak Canadian dollar doesn't help either. To top it all off, the fourth quarter had one fewer week than in the previous year.

So how exactly did the company pull off such impressive results?

Not as immune as you'd think

There are a bunch of reasons why Canadian Tire does well even when the economy is doing poorly.

First of all, the company's flagship stores don't exactly sell premium products. So if the Canadian consumer is struggling, he might actually be more likely to spend money at the local Canadian Tire. Furthermore, when people are struggling, they're more likely to maintain their old car than buy a new one. This provides another boost for Canadian Tire's products and services.

To put this in perspective, the company's sales fell by less than 5% in 2009, a year when the Canadian unemployment rate ballooned from 6.1% to 8.3%. Or if you go back even further, the company actually grew into a retailing giant during the 1930s. Few other retailers can say the same thing.

There are other reasons why Canadian Tire does well in this environment. The petroleum business is getting a nice boost simply because gas prices have not declined nearly as much as oil prices. Low oil prices also incentivize people to drive their cars more, thus boosting demand for gasoline and car maintenance.

Some strong trends

There are a couple of other reasons why Canadian Tire posted such positive numbers.

First is the performance of Sport Chek, the largest sporting goods retailer in the country, which increased same-store sales by more than 6% in 2015. This is very promising, since Sport Chek still has more room for growth; it does not face the same kind of saturation that Canadian Tire's flagship stores do.

Secondly, Canadian Tire has done an excellent job taking costs out of the system. In the fourth quarter, SG&A costs fell by $50 million year over year, a decrease of nearly 6%.

A solid choice

Canadian Tire might seem a little scary right now simply because it has zero international exposure. In other words, it is entirely dependent on Canada for its revenue and income.

But to look at this stock as risky would be very short-sighted. So if you're looking for some safety in your portfolio, this is a very compelling option.

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1. Editor's Choice

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bensinclair