Why Canadian Tire Corporation Limited and CCL Industries Inc. Surged on Thursday

Description

Earnings season is in full swing, and **Canadian Tire Corporation Limited** (TSX:CTC.A) and **CCL Industries Inc.** (TSX:CCL.B) watched their stocks rally over 4% on Thursday following the release of their second-quarter results. Let's take a closer look at each company, their earnings results, and the fundamentals of their stocks to determine if we should consider investing in one or both of them today.

1. Canadian Tire Corporation Limited

Canadian Tire Corporation Limited (TSX:CTC.A) is one of Canada's largest retailers through its many banners, including Canadian Tire, PartSource, Sport Chek, and Mark's. It also owns Canadian Tire Financial Services, which operates as Canadian Tire Bank, and it has an 85.2% ownership interest in **CT Real Estate Investment Trust**, which is one of the country's largest owners of commercial real estate.

In its second-quarter earnings report released on Thursday morning, Canadian Tire reported a 2.9% increase in revenue to $3.35 billion, a 5.4% increase in adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) to $404.9 million, an 8.1% increase in net income to $179.4 million, and a 14.5% increase in earnings per share to $2.46 when compared with the second quarter of 2015. The market responded to these very strong results by sending its stock over 4% higher in the day's trading session.

I think the rally in Canadian Tire's stock was warranted, and I think it's still a great buy today for two fundamental reasons.

First, it still trades at inexpensive valuations. Canadian Tire's stock still trades at just 16 times fiscal 2016's estimated earnings per share of $8.93 and only 14.8 times fiscal 2017's estimated earnings per share of $9.68, both of which are inexpensive given its current growth rate, its projected 8.4% growth rate in 2017, and its estimated 9.3% long-term growth rate. With these growth rates and the strength and stability of its business model in mind, I think its stock could consistently trade at a fair multiple of about 18.

Second, it’s a great dividend-growth stock. Canadian Tire pays a quarterly dividend of $0.575 per share, representing $2.30 per share on an annualized basis, which gives its stock a yield of about 1.6% at today’s levels. A 1.6% yield is far from high, but it’s very important to note that its 9.5% dividend hike in November 2015 has it on pace for 2016 to mark the sixth consecutive year in which it has raised its annual dividend payment, and its very strong financial performance could allow this streak to continue for many years to come.

2. CCL Industries Inc.

CCL Industries Inc. (TSX:CCL.B) is the world’s largest label company, providing innovative solutions to the home and personal care, premium food and beverage, healthcare and specialty, automotive and durables, and consumer markets in North America, South America, Europe, Asia, Australia, and Africa. It’s also one of the world’s leading providers of aluminum aerosol containers and bottles, digital printing solutions, and inventory management solutions.

In its second-quarter earnings report released on Thursday morning, CCL reported a 33.1% increase in sales to $960.2 million, a 30.4% increase in EBITDA to $194.1 million, a 16.7% increase in operating income to $143.1 million, and a 32.1% increase in adjusted earnings per share to a record $2.80 when compared with the second quarter of 2015. The market responded to these incredibly strong results by sending its stock over 4% higher in the day’s trading session.

I think the rally in CCL’s stock was warranted, and I think it’s still a great buy today for the same two fundamental reasons I had for Canadian Tire.

First, it still trades at attractive valuations. CCL’s stock trades at just 23.9 times fiscal 2016’s estimated earnings per share of $10.23 and only 21 times fiscal 2017’s estimated earnings per share of $11.61, both of which are inexpensive given its current growth rate and its projected 13.5% growth rate in 2017. With these growth rates and the growing demand for its services in mind, I think its stock could consistently trade at a fair multiple of about 25.

Second, it’s a great dividend-growth stock. CCL pays a quarterly dividend of $0.50 per share, representing $2.00 per share on an annualized basis, which gives its stock a yield of about 0.8% at today’s levels. A 0.8% yield is not high by any means, but it’s very important to note that its 33.3% dividend hike in February has it on pace for 2016 to mark the 15th consecutive year in which it has raised its annual dividend payment, and its record financial performance could allow this streak to continue for the foreseeable future.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CCL.B (CCL Industries)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)

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