



An Iconic Brand Goes on Sale

Description

The Globe and Mail recently did a little number crunching, looking for undervalued North American retail stocks. The only Canadian name on the list—**Canadian Tire Corporation Limited** ([TSX:CTC.A](#))—was a surprising one, or not, depending on your perspective.

How did it make the list of 12 retail stocks?

The Globe looked at retailers reporting earnings in the next few weeks that are expected to deliver positive earnings surprises, according to **Thomson Reuters's** proprietary Smart Estimate research data.

To make the list, companies have to have a market cap of more than \$1 billion, an expected earnings surprise, mentioned previously, and a forward P/E ratio less than the industry median.

The Thomson Reuters data pegged Canadian Tire's forward P/E at 14.2—much lower than the industry median of 18.64. Not to put too fine a point on this, but they've got Canadian Tire mixed in with department stores, which are hardly its milieu.

But no matter.

The important part of the *Globe's* exercise is the realization that despite Canadian Tire's total return year-to-date being up 21%, it's considered a bargain in some circles.

In fact, with the exception of **Foot Locker, Inc.** ([NYSE:FL](#)), which has had an amazing 28.8% annual total return over the past five years, Canadian Tire's 18.9% is the best of the bunch.

Fool.ca contributor Demetris Afxentiou recently [discussed](#) why Canadian Tire is such a great investment. His big argument hinged on the changes it's making in terms of technology in the store to improve the customer experience along with the higher gross margins generated by private label brands such as MotoMaster and Denver Hayes really driving its future growth.

You're not going to get a rebuttal from me. In June, I [argued](#) that Canadian Tire was a better buy than **Dollarama Inc.**

([TSX:DOL](#)) from a value perspective; should it get its margins higher, it will become a growth stock as well.

Something I didn't include was the need for Canadian Tire to seriously improve its online business—just look at what **Best Buy** has done to beef up its e-commerce—because if you fix that along with its profitability, at 14 times forward earnings, you're downright stealing its stock.

But let's not get ahead of ourselves. It still has to do those two things before it will see serious multiple expansion from investors.

That said, you can do much worse than buying Canadian Tire at current prices.

With almost a 2% dividend yield and a big chunk of the sporting goods and automotive repair market in Canada, regardless of its deficiencies, it's still one of Canada's better retailers—and certainly one of the most iconic.

It belongs in your portfolio.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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2. TSX:DOL (Dollarama Inc.)

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