



## Canadian Tire Corporation Limited Just Isn't Worth the Sticker Price!

### Description

Shares of **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)) have had an incredible run over the past five years, proving that management has done at least a few things right.

I was looking for the best securities to stuff into my families stockings, so I began by casting a wide net and then removed what I thought were obvious no-no's for my conservative family. Canadian Tire remained among no more than a dozen securities, so I went to work.

As a defensive company, the expectation was to see consistent revenues and net profit year over year in addition to a growing dividend. The expectations were high since the dividend has increased from \$1.20 in 2012 to \$2.30 per share in 2016. The CAGR (compounded annual growth rate) has been approximately 35% over the four-year period. Shares have increased almost 120% over the past five years. It's been an incredible ride for investors.

The fantastic performance, however, is in the past. Over the past two fiscal years, revenue has grown stagnant, while earnings per share (EPS) have continued their upward momentum. In 2012, EPS were \$6.10 and have increased every year. In fiscal 2015, the number grew to \$8.61, and through the first three quarters of 2016, the company is sitting on \$5.81 in earnings.

The final quarter is obviously the most important. Assuming a repetition of last year's Christmas quarter, the company would add another \$3.01 to the bottom line, bringing the total to a hypothetical \$8.90.

Although the earnings seem to be increasing at a compounded rate of 20%, there is a clear difference between the increase in EPS vs. the total earnings. Looking at the increase in EPS in 2012 vs. 2015, we see a net difference. EPS increased from \$6.10 to \$8.61—a CAGR of 24.35% vs. total earnings. Total earnings increased from \$498.90 million to \$659.40 million—a CAGR of 19.49% over the same period.

### How is this possible?

With declining revenues, a company can only mask the situation for so long. The total shares

outstanding account for the discrepancy between the 24.35% and the 19.49% growth in earnings. With fewer shares outstanding, any company will have higher EPS.

In the case of Canadian Tire, the potential for future growth is found by looking at the capital expenditures. Assuming more stores are renovated or opened, it would make sense to see a high amount of expenditures in fixed capital. Looking back over the past three fiscal years, capital expenditures have been more than double the depreciation. This is a good sign for investors.

## Conclusion

Although there are a number of excellent things happening at this company, the reality is that declining revenues can be compared to shutting off the water at the pool. It may not take long for the whole thing to dry up. In this case, I remain cautious, but I may consider this investment at a later time.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

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1. Investing

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