Canadian Tire Corporation Limited and Martinrea International Inc. Will Benefit From Strong Job Numbers

Description

Once again, the Canadian jobs report in March was strong with employment growing by 19,400 jobs. This comes after a strong jobs report in February, showing an addition of 15,300 jobs, and continues the trend of strong numbers that are blowing away economist expectations.

Alberta had the biggest increase, and while it seems that most of these added jobs were from self-employment, it is, nevertheless, a very bullish sign for the Canadian economy.

So, while this is clearly good news for the economy as a whole, let's look at the companies that should benefit most. Industries that are really well positioned to benefit from the strength include retailers and auto/auto parts companies, and while some of these companies are very richly valued, there are still some that have more reasonable valuations and that represent good entry points.

Retailers

Retailers that have a strong online presence should continue to do well and be boosted by the strength in job numbers, as consumers' wallets can continue to support more discretionary spending.

Canadian Tire Corporation Limited (TSX:CTC.A) is among the Canadian retailers that I believe are best positioned to benefit from a strong consumer. At Canadian Tire, which has been going through a transformation of late, another strong quarter and year was reported with continued strong same-store-sales growth and strong free cash flow.

In the fourth quarter of 2016, the Canadian Tire banner saw an 8.1% increase on same-store sales; the Mark's banner increased 10.6%, and FGL Sports increased 5.1%. Given the strength in the company's results, it is reasonable for investors to expect dividend increases (current dividend yield is 1.6%) and continued share buybacks from the company. The company's transformation is ongoing and is expected to continue to drive sales and earnings growth.

Auto parts companies

Of the auto parts companies, I believe the stock with the most upside is **Martinrea International Inc.** (TSX:MRE). Martinrea is an $808 million market cap auto parts company with a 1.28% dividend yield. The stock trades at a P/E ratio of 6.25 times 2016 earnings and 4.9 times 2017 EPS, despite its 9.7% 2017 expected earnings growth rate, and it trades pretty much at book value with a return on equity of over 11%.

It's a very cheap stock with free cash flow of $33 million in 2016 and improving margins. The 2016 gross margin was 10.9% — up from 10.4% in 2015 and 9.7% in 2014. Its 2016 sales increased 2.6%, but EPS increased 9.5%. The balance sheet is a little stretched with a debt-to-total capitalization ratio of 46.5%, but this appears manageable.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:MRE (Martinrea International Inc.)

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