This 1 Stock Is Living the Canadian Dream

Description

Canadian Tire Corporation Limited (TSX:CTC.A) is an interesting case study in the evolving world of retail. With bricks-and-mortar stores around the world giving way to the world of online shopping — think **Amazon.com, Inc.** — only the best will survive. Looking at Canadian Tire's share price return over the past five years of nearly 140%, the market appears to be giving Canadian Tire a huge vote of confidence as one of the few big-box retailers to continue to turn profits in the long term.

I'll be taking a look at some of the key characteristics of Canadian Tire's business model and why Canadian Tire may just be able to do what other retailers can't in today's challenging world: survive and thrive.

Competitive environment

In my opinion, the competitive landscape in the Canadian market for the goods and services that Canadian Tire provides is the biggest asset the company has. From the most recent 2016 annual report: "No single retailer (traditional bricks-and-mortar or online) competes directly with Canadian Tire across all its categories of product and service offerings, reflecting Canadian Tire's unique position in the Canadian retail marketplace."

This cannot be understated; currently, no retailer (e-commerce or otherwise) has a foothold of any significance in the Canadian market for the goods and services that Canadian Tire offers.

My take on this is simple: the niche status of the items sold at Canadian Tire, the fact that the majority of the items sold are large and bulky (not suitable for e-commerce), and the consumer-focused added value provided by staff via the service/advice aspect of the sale are just a few of the factors contributing to the large moat currently surrounding this business.

Strong balance sheet

In addition to having nearly $1 billion in cash sitting on Canadian Tire's balance sheet (almost 10% of the market capitalization of the company), a number of key metrics speak to the health of the business long term.

Canadian Tire's return on equity (ROE) is high at nearly 13%, and its price-to-sales ratio is also very low at 0.91, meaning the business is trading at a market capitalization less than its annual revenues.

Considering that Canadian Tire has rolled its real estate into a real estate investment trust (REIT), its price-to-book ratio (P/BV) is also relatively low at 2.3, as the book value of the CTC.A shares has been lowered substantially.

Bottom line

Pundits may speak to the relatively healthy valuation given to Canadian Tire at its current levels, as the stock is trading at multiples significantly higher than other competitors in the industry. I believe, however, that these multiples are deserved and, while high, they represent the fact that a large portion of the long-term value Canadian Tire provides investors with has been baked in to the price.

I would be interested in taking a position in this company on any dips in the future should there be any.

Stay Foolish, my friends.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Date
2025/08/16
Date Created
2017/04/18
Author
chrismacdonald