



Canadian Tire Corporation Limited: Could Home Delivery Be a Game-Changer?

Description

Canadian Tire Corporation Limited ([TSX:CTC.A](#)) plunged 5.94% on Thursday following its earnings report over fears that the company may be starting to feel the pressure from **Wal-Mart Stores, Inc.** ([NYSE:WMT](#)) and **Amazon.com, Inc.** ([NASDAQ:AMZN](#)).

The management team is prepared to fight back by offering its own home delivery platform, which it will be testing in the coming months. I believe the post-earnings drop was completely unwarranted and represents a buying opportunity to those who want to get a piece of a fantastic Canadian retailer at a reasonable valuation.

Better earnings report than Thursday's stock movement would indicate

The earnings report itself was quite promising, despite the direction of the stock price.

Net earnings increased a whopping 26% in Q1 2017, even though temperatures across the country were warmer this winter. Automotive, sporting and household goods were at \$107.9 million, which was higher than the \$85.6 million reported in Q1 2016. Revenue also increased 7.6% to \$2.75 billion. Revenue from retail stores rose just 2% to \$1.38 billion, and same-store sales rose a minuscule 0.5%.

One thing was quite concerning is the flat same-store sales growth, which should be a lot higher given that the management team has been investing in initiatives using technology to improve store traffic and drive same-store sales.

Could home delivery reduce the rising pressure from competitors?

Canadian Tire is somewhat sheltered from the rise of e-commerce giants like Amazon, but not completely. You definitely wouldn't find yourself buying tires, swing sets, or lawnmowers on Amazon, but the e-commerce giant could pressure sales of smaller necessities that Canadian Tire and its subsidiaries sell.

The management team at Canadian Tire isn't afraid to invest in sales-growth initiatives, and I believe home delivery could definitely make Canadian Tire great again in the eyes of the consumer, who would

rather just order things online than go to a physical brick-and-mortar retail store.

Stephen Wetmore, the CEO of Canadian Tire, stated: “We have no fewer than 30 e-commerce initiatives underway at the moment, providing us critical learning on everything from search optimization to website experience to back-end fulfillment options.”

Currently, Canadian Tire only has a “Click & Collect” feature, which may work out well for grocery chains, but probably isn’t the best for retailers like Canadian Tire, Sport Chek, or Mark’s stores.

I believe it’s very likely that the home-delivery initiatives will be successful given the management team’s impressive track record of sales increases due to innovative initiatives.

Canadian Tire isn’t planning to reduce its brick-and-mortar footprint, and it has no reason to, as most items the company sells should be viewed and tried in store before being purchased.

Takeaway

Canadian Tire is a benchmark of excellence in the Canadian brick-and-mortar retail space, and I think the stock is a great long-term buy after the recent dip. The management team knows how to adapt, and I’m confident in their ability to make Canadian Tire strong enough to fight off the likes of Amazon and Wal-Mart.

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