Here’s Why Canadian Tire Corporation Limited Is a Strong Buy on the Dip

Description

Canadian Tire Corporation Limited (TSX:CTC.A) shares are down over 15% from all-time highs following a quarterly report that many investors deemed worrisome. Despite spending a great deal on same-store sales-growth initiatives, Canadian Tire didn’t appear to be reaping the rewards of its efforts.

Take Canadian Tire’s sporting goods subsidiary, FGL Sports; it actually saw same-store sales decrease by 2.7%, even though many Sport Chek locations have been revamped to attract customers to its stores. To many investors, the quarter was a complete disappointment, which exacerbated the fears that e-commerce giants may finally be putting a dent in Canadian Tire’s armour.

The management team at Canadian Tire has done an exceptional job adapting to the rise of e-commerce. As one of Canada’s top brands, Canadian Tire has many loyal customers who will always go to a brick-and-mortar location to pick up various hardware goods.

Canadian Tire is one of the most resilient brick-and-mortar retailers out there

Many investors even thought that Canadian Tire was immune to issues that many other retailers have faced following the disruption of digital retailers. Delivery of propane tanks, tents, kayaks, bikes, and trampolines doesn’t make a whole lot of sense.

Let’s say you ordered a bike online, and you had to go through the lengthy task of assembling it. Once you’re finished, you realize that the bike isn’t the one for you. It’s a hassle to return it, not just for the consumer, but for the retailer too. Some goods are just meant to be sold at physical locations, and fortunately for most Canadians, there’s usually a Canadian Tire nearby.

So, Canadian Tire is somewhat immune to the rise of digital retailers, but not completely. Canadian Tire and its subsidiaries like FGL Sports and Mark’s Work Warehouse sell goods such as clothing, kitchen appliances, and other, smaller items that make sense to have delivered. That’s where the digital retailers can steal Canadian Tire’s slice of the pie, and why the management team emphasized the importance of investing in an e-commerce platform.

Given the management team’s impressive track record, I believe they’ll be successful in combating the loss of sales from e-commerce competitors. However, for stores like Sport Chek and Mark's, which specializes in smaller deliverable items, if you're going to have online delivery, what's the point of owning all that real estate?

Clothing and sporting goods are meant to be tried on before being purchased, but clearly, digital retailers are pushing customers to buy clothing online and offering free returns if an article of clothing is not to their liking. This may be something to be concerned about, but let's face it: Canadian Tire's brands are far more resilient than other retailers, and I believe the fears over the rise of e-commerce are completely overblown, especially when you consider that the core of Canadian Tire's business is still strong.

Stronger Canadian dollar a tailwind for Canadian Tire

Going forward, Canadian Tire is likely to ride the tailwind of an increasing Canadian dollar since the company buys a considerable amount of merchandise from abroad. Eight Capital analyst Tal Woolley stated, "…retailers, especially discretionary retailers that import significant volumes of overseas merchandise priced in USD, benefit from a stronger CAD … [I'm] surprised that shares have continued to lag on this significant move in the CAD."

Shares currently trade at a cheap 14.7 price-to-earnings multiple, which I believe is a dirt-cheap price to pay for such an iconic Canadian retailer with a very experienced management team.

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