Why Canadian Tire Corporation Limited Is up Over 3%

Description

Canadian Tire Corporation Limited (TSX:CTC.A), one of Canada's largest retailers, announced its second-quarter earnings results this morning, and its stock has responded by rising more than 3% in early trading. Let's take a closer look at the results and the fundamentals of its stock to determine if this could be the start of a sustained rally higher and if we should be long-term buyers today.

A strong quarter of top- and bottom-line growth

Here's a breakdown of eight of the most notable statistics from Canadian Tire's 13-week period ended on July 1, 2017, compared with the same period in 2016:

Metric	Q2 2017	Q2 2016	Change
Retail sales	$4,103.1 million	$3.983.3 million	3%
Revenue	$3,413.5 million	$3,352.2 million	$1.8%
Gross profit	$1,151.0 million	$1,110.2 million	$3.7%
Gross margin	33.7%	33.1%	60 basis points
Adjusted EBITDA	$433.2 million	$404.9 million	7%
Adjusted EBITDA margin	12.7%	12.1%	60 basis points
Net earnings	$217.0 million	$199.0 million	9%
Diluted earnings per share (EPS)	$2.81	$2.46	14.1%

What should you do with Canadian Tire's stock today?

It was a very strong quarter overall for Canada Tire, and it capped off a great first half of the year for the company, in which its revenue increased 4.3% to $6.17 billion, its adjusted EBITDA increased 10% to $717.6 million, and its diluted EPS increased 20.4% to $4.04. Its second-quarter results also beat the consensus estimates of analysts polled by **Thomson Reuters**, which called for EPS of $2.52 on revenue of $3.4 billion, so I think the +3% pop in its stock is warranted.

With all of this being said, Canadian Tire's stock still sits more than 14% below its 52-week high of

$171.91 reached back in May. I think this represents a very attractive investment opportunity for the long term for two fundamental reasons.

First, it's still undervalued. Even after the +3% rally, Canadian Tire's stock still trades at just 14.4 times fiscal 2017's estimated EPS of $10.23 and only 13.2 times fiscal 2018's estimated EPS of $11.15, both of which are very inexpensive given its current earnings-growth rate and its estimated 10.2% long-term growth rate. These multiples are also inexpensive compared with its five-year average price-to-earnings multiple of 14.8.

Second, it's a dividend-growth star. Canadian Tire currently pays a quarterly dividend of $0.65 per share, equal to $2.60 per share annually, which gives it a yield of about 1.8%. A 1.8% yield is far from high, but what Canadian Tire lacks in yield, it makes up for in growth; it has raised its annual dividend payment for six consecutive years, and its 13% hike in November 2016 has it on pace for 2017 to mark the seventh consecutive year with an increase. It's also important to note that the company has a target dividend-payout range of 25-30% of its prior year's net earnings, so I think its consistently strong growth, including its aforementioned 20.4% growth to $4.04 per share in the first half of 2017, will allow its streak of annual dividend increases to continue for the foreseeable future.

With all of the information provided above in mind, I think all Foolish investors should strongly consider making Canadian Tire a long-term core holding.

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