



Canadian Tire Corporation Limited's Q2 Earnings Provide Cause for Concern

Description

Canadian Tire Corporation Limited ([TSX:CTC.A](#)) reported its second-quarter earnings earlier this month which showed the company's revenues up only 1% from the prior year. However, net income for the quarter was \$195 million, up from \$179 million a year ago for an increase of 9%. The company's earnings per share of \$2.81 in this quarter were also up from \$2.46 in 2016.

Despite the improvements in the company's performance, there are three reasons why I would avoid this stock.

Sales and profit growth has stalled

Canadian Tire has been fairly consistent in its earnings and has seen net income grow in each of the past four years. However, the earnings growth has started to stall with 2016 seeing profits grow by just over 1%. Prior to that, the company's earnings grew by 9% in 2015 and over 7% the year before that.

Revenue growth has not been as consistent, and despite sales growing by 3% in 2016, the previous year saw revenue decline by over 1%.

My concern is that the company will struggle to find ways to grow sales from its existing stores. In Q2, the company saw same-store sales growth of just 1.4% in Canadian Tire, 2.6% in FGL Sports, and 4% in Mark's locations.

The retail segment may have the least amount of growth potential

The company has three main operating segments: retail, CT REIT, and financial services.

At the top line, the retail segment saw revenue increase by just 1.6% from the same quarter a year ago, while profits of \$183 million were up over 6%.

Financial services posted revenue of \$288 million in Q2, which was up by almost 4% from last year, but earnings grew by 12% to over \$101 million for the quarter. The main reason for this segment's improved profitability was due to slightly higher margins of 61% for the quarter compared to just under

60% a year ago.

CT REIT saw its property revenue rise by 10%, while earnings grew by over 23% from a year ago. However, a big reason for the segment's improved profits came from \$14.6 million in fair-value gains compared with just \$8.2 million in the prior year. Without the increased gains, profitability for the segment would have increased by just 12%.

It is evident that if Canadian Tire is going to be able to grow sales and profits, it will have to come from outside the company's traditional retail segment.

The company's strategy is unimpressive

One of the company's strategic aims is to push and improve the company's brand and its offerings. Another company objective is to focus on operational excellence and increasing efficiency in the company's operations. The third and most ambiguous of the company's objectives is to "transform the business by developing a high-performing, talented, and results-oriented corporate culture."

The first objective is sound, but the other two are vague and seem to lack a strong direction. The company is seeing its sales growth run into serious issues and has already conceded that it will not be able to achieve its growth target for FGL Sports. However, these objectives show no action plan or directive that is going to address these growth issues.

My concern is that management is hiding behind ambiguity and not formulating any real strategy to address its stagnant growth.

Bottom line

I've never been a fan of Canadian Tire's stores, and the stock leaves much to be desired as well. If you're looking for value, growth, or dividends, you might be better off investing in **Loblaw Companies Ltd.** ([TSX:L](#)).

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