Here’s Why Canadian Tire Corporation Remains an Excellent Buy

Description

The most recent earnings beat by one of Canada’s most iconic retailers **Canadian Tire Corporation Limited** (TSX:CTC.A) has excited investors once again, with shares rising dramatically over the past few weeks as investors consider the long-term potential of the company compared with its peers.

In this article, I’m going to dive into a few reasons why I believe Canadian Tire will have the ability to outgrow its bricks-and-mortar peers for the foreseeable future.

Earnings

Canadian Tire reported impressive earnings earlier this month, reporting increased revenue of 3% and increased net income of 9%. The near-double-digit growth rate of the company’s bottom line, combined with a number of strategic initiatives currently being undertaken by management focusing on e-commerce and private label branding, have taken investors and analysts aback, given the consensus estimates for earnings per share (EPS) and revenue were substantially lower.

After dipping more than 17% from its 52-week high earlier this month, shares of Canadian Tire have since rebounded over the past few weeks in dramatic fashion. The question most investors have following the recently released earnings data is: can one of Canada’s largest retailers sustain this sort of earnings growth long-term, or will the company give way to other technology-driven retail approaches which appear to be taking over?

As I have said in the past, it is very hard (but not impossible) for customers to get a tire change online. I mean, technologically speaking, setting up an appointment for a mechanic to come to a customer’s house and change the tire using a “mobile shop” approach is something that already exists, however, going to a Canadian Tire and picking up everything one needs for their vehicle, home, garden, etc. still makes much more sense from a cost standpoint (might be a tad expensive to ship bulky tires from sparsely located distribution centres). Geographically, Canada is as large as it is diverse, making e-commerce models much more difficult than in other nations with the ability to rely on population density and a hub-and-spoke model to deliver results.

Dividend

Canadian Tire’s business model and track record of growing earnings has allowed the company to continue to increase its dividend over time. While the current yield for shareholders is nothing to scream about (1.8% is a very modest yield), the focus of the company’s management team on delivering double-digit dividend distribution increases is something income-focused investors should consider when looking at Canadian Tire as a potential long-term income hold.

Stay Foolish, my friends.

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Date
2025/08/02
Date Created
2017/08/25
Author
chrismacdonald