Canadian Tire Corporation Limited: The Best Retail Stock in Canada?

Description

Canadian Tire Corporation Limited (TSX:CTC.A) is, without a doubt, the most innovative retailer in Canada. Just a few short years ago, the company was facing a branding and identity crisis, stuck between being a brick-and-mortar physical store and establishing an online digital presence to appeal to a new generation of customers that shop with their smartphones.

Canadian Tire has managed to not only address those concerns, but it's become an example to the entire retail sector of precisely how a legacy retailer should embrace technology and integrate it directly as part of the sales process.

Some examples of what Canadian Tire did in this respect include adding a driving simulator to try out new tires in varying weather conditions and taking a run on a treadmill to help determine the right type of shoe. In fact, Canadian Tire has no less than 20 ongoing initiatives that relate to improving or integrating technology across the company.

Those innovations have helped Canadian Tire establish solid footing from which the company continues to grow.

A stronger loonie could push Canadian Tire even further

One often neglected but a significant factor in Canadian Tire's bottom line is the value of the loonie.

The loonie has been steadily rising over the past few weeks, primarily attributed to the Bank of Canada decision to hike interest rates. Assuming this trend continues, Canadian Tire could reap the benefits from a stronger loonie over the longer period.

Most of the goods that Canadian Tire sells are imported. As the loonie continues to appreciate in value, the cost that Canadian Tire pays for those goods drops, resulting in the purchasing power of Canadian Tire increasing.

This could lead to increased margins, better quality products, or more aggressive pricing aimed at improving sales. Any of these measures could lead to improved quarterly results for the company.

Canadian Tire's recent quarterly results

In the most recent quarter, Canadian Tire reported retail sales of $4,103.1 million, representing a 3% increase over the same quarter last year. Gross profit for the quarter came in at $1,151 million, beating the $1,110.2 million reported in the same quarter last year by 3.7%.

In terms of earnings, Canadian Tire reported $217 million for the quarter, coming in 9% stronger than the $199 million reported in the same period last year. On a per-share basis, the company earned $2.81 diluted, handily beating the $2.46 per share earned in the same quarter last year by an impressive 14.1%.

What do these results mean for investors?

For the moment, Canadian Tire remains a great investment opportunity, particularly for those investors looking to diversify their portfolios with a retail stock that has growth and income potential.

Canadian Tire does pay a dividend, but, at the moment, the quarterly dividend provides $0.65 per share for an annual yield of 1.71%. While this is hardly deserving of being a great dividend stock on its own, there are some encouraging signs that prospective investors shouldn't overlook.

Canadian Tire has typically set the payout ratio to a sustainable level that is below 30% of the net earnings from the prior year. That model has worked well for the company, resulting in annual dividend hikes for the past six years.

Given Canadian Tire's strong results over the past few quarters, there's little reason to doubt the company will record a seventh straight year of increases later this year.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/28
Date Created
2017/08/31
Author
dafxentiou