Why Canadian Tire Corporation Limited Rallied 3.13% on Thursday

Description

Canadian Tire Corporation Limited (TSX:CTC.A), one of Canada's largest retailers, announced its third-quarter earnings results and a dividend increase Thursday morning, and its stock responded by rising 3.13% in the day's trading session. Let's break down the quarterly results and the fundamentals of its stock to determine if this could be the start of a sustained rally higher.

The results that sent its stock higher

Here's a breakdown of eight of the most notable financial statistics from Canadian Tire's 13-week period ended September 30, 2017, compared with its 13-week period ended October 1, 2016:

Metric	Q3 2017	Q3 2016	Change
Retail sales	$3,701.1 million	$3,521.6 million	5.1%
Revenue	$3,303.9 million	$3,128.4 million	5.6%
Gross profit	$1,120.6 million	$1,071.6 million	4.6%
Gross margin	33.9%	34.3%	(40 basis points)
Adjusted EBITDA	$417.7 million	$402.7 million	3.8%
Adjusted EBITDA margin	12.6%	12.9%	(30 basis points)
Net income	$198.5 million	$197.8 million	0.3%
Diluted earnings per share (EPS)	$2.59	$2.44	5.9%

Dividend hike? Yes, please!

In the press release, Canadian Tire announced a 38.5% increase to its quarterly dividend to $0.90 per share, and the first payment at this increased rate will come on March 1 to shareholders of record at the close of business on January 31.

Share-repurchase authorization

On top of the dividend increase, Canadian Tire announced that it would be returning capital to shareholders by repurchasing $500 million of its class A non-voting shares by the end of 2018. Share repurchases will help boost the company's EPS growth going forward, while making its remaining shares more valuable.

"Financial aspirations"

In the press release, Canadian Tire also announced "financial aspirations for fiscal years 2018-2020." Its aspirations include consolidated same-store sales growth of 3% or more annually (excluding petroleum), average annual diluted EPS growth of 10% or more, and return on invested capital (ROIC) for its retail segment of 10% or more by 2020.

What should you do with the stock now?

It was a great quarter overall for Canadian Tire, and its dividend hike, share-repurchase authorization, and bullish "financial aspirations" for 2018-2020 were icing on the cake, so I think the market responded correctly by sending its stock 3.13% higher in Thursday's trading session. Furthermore, I think the stock still represents a great long-term investment opportunity for two fundamental reasons.

First, it still trades at attractive valuations. Canadian Tire's stock is up more than 16% year to date, but it still trades at just 15.4 times fiscal 2017's estimated EPS of $10.55 and only 14.2 times fiscal 2018's estimated EPS of $11.46, both of which are inexpensive given its current earnings-growth rate and its estimated 10.8% long-term earnings-growth rate.

Second, it's a dividend-growth aristocrat. Canadian Tire now pays an annual dividend of $3.60 per share, which brings its yield up to a respectable 2.2%. It's important to note that the dividend hike the company just announced puts it on track for 2018 to mark the eighth consecutive year in which it has raised its annual dividend payment, and that it has a target dividend-payout range of 30-40% of its prior year's normalized earnings, so I think its consistently strong growth will allow it to continue to deliver dividend-growth to its shareholders for many years to come.

Canadian Tire's stock is up more than 30% since I first recommended it in December 2014 and more than 14% since its second-quarter earnings release this past August, and I think it still represents a fantastic long-term investment opportunity, so take a closer look and strongly consider making it a core holding.

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Date
2025/08/25
Date Created
2017/11/10
Author
jsolitro