Canadian Tire Corporation Limited Struggles to Grow its Bottom Line in Q3

Description

Canadian Tire Corporation Limited (TSX:CTC.A) released its third-quarter results last week. Revenue of $3.3 billion was up 5.6% from $3.1 billion a year ago, but net income saw little change. However, earnings per share of $2.59 were up from $2.44 last year.

The company's Q2 earnings raised some concerns earlier this year, as the retailer failed to show much growth across its stores. Let's take a look to see if Q3 did better and if the stock is a buy today.

Same-store sales growth shows improvement

The company had a strong quarter this go around, as same-store sales growth was 4.7% for its flagship Canadian Tire stores and 4.6% for Mark's stores, with both brands showing improvement over the prior year. FGL Sports, however, saw minimal growth of 0.4% compared to 6.2% a year ago.

In Q2, it was only Mark's locations that saw growth north of 4%.

Lower gross margin and higher operating expenses erode away increase in sales

Although sales were up 5.6% this quarter, the company saw gross margin drop from 34.3% a year ago to 33.9%. As a result, total gross profit was up only 4.6% as the declining margins took a big chunk out of the improvement in sales.

Further down the income statement, selling, general, and administrative expenses were up $43 million, and net financing costs rose over $6 million. Together, these items helped to nearly wipe out the extra $49 million the company banked in gross profit.

Despite the increase in sales, investors saw just a $0.2 million increase in income attributable to shareholders.

Segment analysis

Retail by and large still makes up the majority of Canadian Tire's revenues, representing more than

90% of sales this past quarter. Although retail sales were up over 5%, over the long term the company will have to look at other segments, like **CT Real Estate Investment Trust** (TSX:CRT.UN) or its financial services to drive growth.

CT REIT had less than $9 million in non-inter-company sales this quarter, while financial services generated $289 million in revenue. As retail gets more competitive and more saturated, it will be difficult for Canadian Tire to grow sales, and it's important that the company work on growing its other segments.

Dividend increased

Canadian Tire announced that it would be increasing its quarterly dividend from $0.65 a share up to $0.90 for a significant hike of 38%. The company has increased its dividend in each of the past five years, and with the latest increase the dividend has now tripled in just five years. The stock currently pays investors a dividend of 2.2%.

Is the stock a buy?

Although the company has seen good returns this year, over the long term I'm skeptical about where growth will come from. Retail has been a struggling industry in Canada, and increases in minimum wage will only put more pressure on the company's bottom line.

The payout at over 2% is respectable, but for investors looking for dividend income, there are better options available. Value investors might also not see much upside either from a stock that is trading 2.3 times its book value and at a price-to-earnings ratio of more than 16.

Until Canadian Tire shows more growth from its other segments, I would wait in the sidelines.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/08/24
Date Created
2017/11/14

Author
djagielski