Canadian Tire Corporation Limited: 3 Things I Learned Today

Description

The retail industry may be struggling in certain categories, but it's clear from its Q3 2017 earnings report that **Canadian Tire Corporation Limited** (TSX:CTC.A) is performing exceptionally well in a challenging business environment.

It's not perfect, mind you, but after going through its third-quarter documents, I've learned three things about the company that I didn't know before today.

One of the things I learned is obvious; one less so, and another that probably comes right out of left field for most investors.

The obvious fact about Q3

It was excellent.

On the top line, revenues increased by 4.7%, excluding gas, to $3.3 billion. On the bottom line, earnings per share increased 5.9% to $2.59 per share. Having earned $6.62 through the first nine months of the year, Canadian Tire announced it was upping its annual dividend by a dollar to $3.60 and, in the process, increasing the dividend yield by 60 basis points to 2.2%.

Income investors are bound to start paying attention to Canadian Tire stock.

Of its three retail banners, Mark's is the business that's doing the best at least in 2017 from a raw numbers perspective. Revenues increased by 5.6% in the quarter to $252 million on the back of 4.6% same-store sales growth. However, it's the 6.2% increase in sales per square foot to $345 that stands out. This time last year, its sales per square foot were 21% less than the legacy Canadian Tire banner; as of the end of September, the deficit is down to 16% and closing.

Mark's year-to-date results are better than the legacy banner and FGL Sports. However, Canadian Tire represents a much greater piece of the pie, so the fact that it was able to grow revenues 4.8% in the quarter to $1.7 billion on same-store sales growth of 4.7% is a relief to anyone who was worried about slowing sales at the company's biggest revenue generator.

In late October, I'd recommended Canadian Tire stock, despite slowing sales at the legacy banner. Its Q3 results did a nice job calming fears of a slowdown and should keep the share price moving higher as a result.

The less-obvious fact about Q3

The company is running out of ideas for investing its excess cash flow.

How so, you ask?

The company allocates capital in four main areas: operating capital expenditures, distribution capital expenditures (money spent to increase distribution capacity), dividend-payout ratio, and share repurchases. In two out of the four areas, Canadian Tire is increasing its annual targeted amounts, in another it's maintaining its level of investment, and in just one is it cutting.

Specifically, it intends to spend at least $450 million in 2018 on operating capex — $50 million higher than the minimum targeted in 2017. It also plans to increase its dividend-payout ratio from between 25% and 30% annually to between 30% and 40% annually — a sign that it sees less need to hold on to more of its excess cash.

The other shareholder reward, beside dividends, is share repurchases. It plans to buy back $550 million of its stock in 2018 — the same as in 2017.

Finally, it's not allocating any capital to distribution capex in 2018, which means its distribution facilities are already pumped and primed for revenue growth.

The obscure fact about Q3

The athletic footwear business continues to suffer buyer fatigue.

How do I know this?

One quick look at the FGL Sports (Sport Chek, Sports Experts, etc.) numbers in Q3 2017 and it's clear that it's having a tough time convincing shoppers to open their wallets.

Canadian Tire's annual retail sales growth for FGL Sports's many banners is 9%; so far in 2017, the operator of sporting goods stores has managed just 1% growth.

Athletic footwear is a big part of its revenue. The fact it's not growing explains why stocks such as **Under Armour** and **Nike** are lagging the S&P 500 in 2017.

Fool contributor Ryan Goldsman recently suggested that Canadian Tire should pick up business from former Sears Canada customers. I'm sure FGL Sports is working to grab some of them.

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