



My Top Canadian Retail Pick for 2018 and Beyond

Description

The Canadian industry is a tough place for investors to spot bargains because of the vast number of value traps that continue to get demolished at the hands of e-commerce disruptors. There's no shame in avoiding the entire industry if you're uncertain of what the implications will be from the continuing rise of e-commerce. Don't let anybody nudge you outside your circle of competence, as it seldom ends well, since you're more likely to regret an investment decision down the road if things don't go the way you're expecting.

If you are still keen on getting into some of Canada's hottest retailers, there are many high-quality names that stand to co-exist alongside up-and-coming e-commerce competitors. In many previous pieces, I've emphasized that exclusive branding, an [adaptable management team](#), and the [nature of a particular retailer's sub-industry](#) would serve as enough of a moat to prevent competition from swooping in to steal market share.

As digital retailers continue to strengthen over the next decade, having a solid online platform isn't the only solution to a traditional brick-and-mortar retailer's issues. Even if an old-fashioned brick-and-mortar retailer created an online platform and a distribution system that's as sophisticated as **Amazon.com, Inc.**, which is improbable to begin with, there will still be a tonne of real estate left over that isn't being put to good use.

For the traditional retailer who's looking to adapt, an online platform will offset some of the pressures, but nothing builds a better moat than strong exclusive brands you can't find anywhere else. Add intriguing technologies into the mix (online platform and in-store tech), and you'll have not just a company that'll survive the onslaught from digital disruptors, but one that will thrive and prosper in spite of mounting industry-wide headwinds.

Consider **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)), an iconic Canadian retailer that's one of the best suited to rocket higher for many years. Let's take a look at the checklist to see why the company will continue to thrive, even as digital retailers attempt to steal its slice of market share.

First, Canadian Tire is doubling down on its exclusive brands like MotoMaster and MasterCraft, which

are products that are “tested for life in Canada,” following its recent marketing campaign. These brands are trusted by many Canadians, most of whom are willing to go out of their way to go with a brand they’ve had good experiences with.

Second, Canadian Tire is leveraging technology, not just to beef up its online presence, but to drive traffic in its brick-and-mortar stores. Canadian Tire is a brick-and-mortar retailer at heart, and it’ll always be that way due to the nature of the items it sells.

Third, there’s a Canadian Tire near your average Canadian household, and given that the average Canadian is heavily indebted, it makes more sense to drive 10 minutes to your closest store to buy tires or lawn furniture instead of spending a ridiculous amount on shipping costs.

Bottom line

Canadian Tire is a wonderful business with staying power, and it won’t matter how much turmoil the broader retail industry is in — the company is a standout player and will be for decades to come. Although competition is subtly increasing from e-commerce disruptors, Canadian Tire is capable of fighting back with a platform of its own, which will supplement its tremendous country-wide physical presence.

The stock is also a terrific pick for dividend-growth investors who want to set themselves up with a massive income stream that they can rely on a decade from now. The 2.23% yield may not seem like much, but given the consistent and generous dividend hikes that are going to come every year, you’re going to receive a tonne of cash back as a percentage of your principal the longer you hang on to your shares.

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Date

2025/07/21

Date Created

2018/02/14

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