Canadian Tire Corporation Ltd: Buy or Hold?

Description

Canadian Tire Corporation Limited (TSX:CTC.A) has a storied past that other retailers envy — but few can match.

In recent years, Canadian Tire has become the perfect example of how a traditional brick-and-mortar retailer must evolve and embrace technology to remain relevant amid the changing face of retail.

The onslaught of mobile e-commerce and internet retailers has meant that traditional retailers such as Canadian Tire no longer have their geographically local advantage, and, by extension, foot traffic levels continue to decrease as shoppers do their browsing on their smartphone screens as opposed to going into a store.

This was the rough position that Canadian Tire was in just a few years ago: declining revenue, traffic, and a serious branding issue. People saw Canadian Tire as the go-to place for automotive supplies and sporting goods, but neither of those stereotypes held any competitive edge or uniqueness for the modern shopper.

That's when Canadian Tire embarked on changing its ways in a big way. The company introduced technology as part of the core buying process, rather than the previous strategy of a strategically placed (and gimmicky) video screen playing a marketing ad for a product.

Examples of technology integration at the product level include a driving simulator to try out tires in various weather conditions before buying and a treadmill that can recommend the perfect shoe.

Those initiatives worked, and Canadian Tire has become a textbook case of how a legacy retailer can adapt to and embrace technology.

That's not to say that there aren't still impending risks from the growing online marketplace, but Canadian Tire has a plan for those too.

Premium brands coming to Canadian Tire

One advantage that Canadian Tire still holds is the distribution of its brands. The company has a myriad of store-brands such as Mastercraft, MasterChef, and Noma, all of which have a loyal following.

Amazingly, private-label brands already account for one-third of Canadian Tire's revenue, and the company sees this as an opportunity to further develop a network of private label brands through acquisitions.

Most investors may not realize that Canadian Tire has quietly amassed several new brands such as Paderno cookware, Sher-wood Athletics, Vermont Castings and Golfgreen lawncare products.

Beyond loyalty, store-owned brands also provide higher margins retailers.

Should you invest in Canadian Tire or hold?

Canadian Tire makes a powerful addition to nearly every portfolio for several reasons.

First, the company's efforts to revamp and embrace technology have seen some impressive results. In the most recent quarterly update, Canadian Tire announced diluted earnings of $4.10 per share, which was an incredible 18.5% improvement over the same period last year.

Consolidated retail sales realized a 4.9% increase in the quarter, coming in at $215.8 million, and EBITDA realized an impressive 10.2% bump in the quarter.

Second, Canadian Tire has steadily grown into a solid income investment. The current yield of 2.12% represents a healthy and sustainable level that leaves room for growth. Few investors realize the rapid ascension of Canadian Tire as a viable income stock, yet that's exactly how the company has evolved.

Finally, Canadian Tire has plenty of growth potential. Between the continued advancements the company is making in integrating technology into the buying process, to expanding its mobile and online ordering presence to the current share repurchase program, investors can expect Canadian Tire to continue it upward trajectory and outperform during earnings season as one of the best investments on the market.

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