Pump Up Your TFSA With Shares of This Iconic Canadian Dividend Grower

Description

Canadian Tire Corporation Ltd. (TSX:CTC.A) continues to be a stand-out retailer that has not only survived the disruption by digital retailers, but that's also adapted in an effective manner. Moving forward, I think Canadian Tire can become an even better company than it is today in spite of the onslaught from technological innovators that will stop at nothing to steal away the glory from good old-fashioned brick-and-mortar players.

Shares of Canadian Tire have continued to surge upwards when many other Canadian retailers are struggling to adapt. Sure, the trajectory has been rockier. Nevertheless, the trajectory remains positive; when looking at the bigger picture, the company still has the wind in its sails amid the wave of disruption.

There are several major reasons why Canadian Tire has a moat that's difficult for e-commerce players to penetrate — and one overlooked strategy that will allow the company's moat to grow even wider as digital disruptors continue to cause brick-and-mortar bankruptcies globally.

Canadian Tire operates in an industry in which brick-and-mortar is still favoured over e-commerce. Many of the goods that the company sells are really bulky. As such, it wouldn't make economic sense for a digital retailer or a consumer to have a massive item delivered, as the shipping costs would be prohibitive. Moreover, such big-ticket items may also have higher return rates, especially if a customer is unable to "try before they buy."

Your average consumer probably wouldn't want to take on the financial risk of being on the hook for hefty return shipping costs, so the only way such a big-ticket physical item transaction can happen digitally is if the retailer takes on all the risk in a similar fashion to that of digital mattress-in-a-box retailers, which offer attractive, 100-day, no-hassle, full refund return policies.

Unless your margins are through the roof, as they are for direct-to-consumer foam mattress retailers, the "buy before you try" model simply does not make sense, even if you're able to view a large item through augmented reality to see how it would look in your living room. You really need to test something out before committing to such a "high risk" financial transaction as a consumer.

In short, Canadian Tire is fortunate to be in a sector in which brick-and-mortar has the edge over digital stores, even if technologies were to improve over the next decade.

Management has, in fact, been adapting and leveraging technology to its advantage through in-store tech installations that aim to enrich the brick-and-mortar customer's experience. Add Canadian Tire's ever-improving e-commerce platform of its own, its vast portfolio of exclusive brands, its ridiculously high customer loyalty rates, and its country-wide market penetration and you've got a business that's not just thriving alongside technological disruptors, it's also become one.

Make no mistake. Canadian Tire is not falling at the hands of technological disruptors. They've shown that they can adapt and thrive when most throw in the towel and get ready to run for the exits. As such, I believe the company will continue to line the pockets of its shareholders with cash through consistently upped dividends, so investors would be very wise to nibble away at the stock on any forms of weakness.

The ~2.2% dividend yield may not seem like much today, but just wait for more generous dividend hikes and you'll realize that over the longer-term, the payout will make a profound difference for those who have the patience to stay the course. Canadian Tire is my favourite TSX-traded retail stock, so I have absolutely no problem recommending shares at current levels after suffering a 6% peak-to-trough decline along with the broader market.

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