Can Canadian Tire Corporation Ltd. (TSX:CTC.A) Stock Rise to $200 in 2018?

Description

Canadian Tire Corporation Ltd. (TSX:CTC.A) stock experienced a volatile first half of 2018, but the performance was still positive for shareholders. The Canadian retail giant has seen its shares rise 6.1% in 2018 as of close on July 13. The stock is up 21% year over year. The stock has reached dizzying all-time highs of $180.21 in late February, but had also fallen below the $160 mark in the midst of a global sell-off in late January and early February.

Canadian Tire is set to release its second-quarter results in early August. In the first quarter, the company saw consolidated same store sales rise 5.2% from the prior year, while diluted earnings per share fell 5.3% to $1.18. The company benefited from the rise of gas prices in 2018. Consolidated revenues were up 3.4% to $93.5 million in the first quarter, which was powered by a $51.1 million increase in Petroleum revenue. Without this increase, consolidated revenues were down 1.8% from Q1 2017.

The success due to higher gas prices highlights the challenges Canadian Tire may face with retail going forward. Thus far the company has managed to avoid the problems faced by other traditional retailers, but recent trends are troubling. Canadian retail trade in April fell 1.2% from the prior year to $49.5 billion. This was largely due to a decline in activity at motor vehicle and parts dealers. Overall sales were down 2.2% year-over-year at general merchandise stores with building material and garden equipment and supplies dealers experiencing a 3.3% drop in activity.

Unfortunately, Canadian Tire caters to this broad segment of retail. The good news is that gasoline stations could continue to propel earnings in the second quarter. April numbers in Canada showed receipts at gasoline stations increased 1.4% from the prior year on the back of higher prices, occurring despite of a 0.1% drop in volume terms.

In early July Canadian Tire announced that it had closed the acquisition of the company that owns and operates Helly Hansen brands. It originally announced the acquisition with its first-quarter results. Canadian Tire stock plunged on the same day due to broader weakness in the earnings report.

Can Canadian Tire challenge its all-time highs before 2019?

Canadian Tire has been a robust and consistent performer in an increasingly precarious retail environment. The stock also offers a quarterly dividend of $0.90 per share, thereby representing a 1.7% dividend yield. Shares have soared over 100% over a five-year period, making it a lucrative long-term hold over the course of this decade.

That said, Canadian Tire might continue to experience some degree of volatility in the second half of 2018. Gasoline receipts may be enough to propel earnings, but broader weakness in its retail categories are concerning. However, those on the hunt for a long-term hold may want to mull over Canadian Tire if there is considerable slippage following the release of its second-quarter results in August.

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