This Canadian Stock Is Absurdly Cheap After its Latest Dip!

Description

Is it just me or is **Canadian Tire** (TSX:CTC.A) stock absurdly cheap versus its comparable peers? Especially when you consider the massive dip following its last quarterly earnings release!

At the time of writing, the stock trades at a modest 14.6 forward P/E, a 2.5 P/B, a 0.8 P/S, and a 11.7 P/CF, all of which are substantially lower than industry average multiples of 28.9, 3.4, 1.2, and 18.4, respectively.

Why is it that Canadian Tire trades at such a discount to other stocks in its category?

Canadian Tire has impeccable stewardship, and they've proven that they can co-exist in an era in which e-commerce is flying high and brick-and-mortar is on its secular decline into the abyss.

While it's true that Canadian Tire has experienced a more considerable increase in competition from digital disruptors relative to its home improvement peers, the fact remains that a majority of the large-scale products that Canadian Tire sells are better suited to a physical store.

Such items are classic "look-and-feel before you buy" goods for the most part and although Sport Chek and Mark's are susceptible to the rising trend of e-commerce clothing sales, one could argue that Canadian Tire's own e-commerce efforts and its vast portfolio of exclusive brands are more than enough to offset any pressures that could be on the horizon.

In previous pieces, I emphasized the importance of exclusive branding and Canadian Tire's future. Since then, Canadian Tire has been wheeling and dealing, including the most prominent acquisition of Helly Hansen.

The recent partnership with Petco to be an exclusive Canadian distributor of their premium pet foods was also a remarkable development that could bolster sales as Jim Cramer's "humanization of pets" trend continues to take off.

While I like the deals that Canadian Tire has made, one can't help but wonder where the retailer is heading as it looks to fight off the pressures put forth by e-commerce disruptors. One trend that's clear is that Canadian Tire is looking to beef up its existing portfolio of exclusive brands. In an era of intense competition, exclusivity is a differentiating factor that will separate the real winners from the losers as more aggregate sales are conducted online.

Canadian Tire will always be a brick-and-mortar retailer at heart though, so the company should probably focus its efforts on acquiring large-scale items that wouldn't make sense to purchase online. I'm a huge fan of the Petco partnership, but only time will tell whether or not the expensive Helly Hansen deal will prove to be worthwhile.

Simply put, competition is fierce, and as a retailer, Canadian Tire is taking a proactive approach to better position itself against the digital competition. At today's depressed valuations, I think Canadian Tire is a definite buy as management is best-in-class and moving forward, investors can expect more M&A activities that will further solidify Canadian Tire's moat.

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