Is Canadian Tire Corporation Limited (TSX:CTC.A) Really a Bargain?

Description

For investors looking to buy **Canadian Tire** (TSX:CTC.A), the stock's roughly 10% dip from its recent high may be welcome. But before interested buyers get too excited about the dip, let's explore if the quality Canadian retailer is really a bargain.

A company overview

Canadian Tire has about 1,700 Canadian retail locations under the brands of Canadian Tire (about 58% of 2017 retail sales), Mark's (about 10%), and FGL Sport Chek, Sports Experts, Atmosphere, etc. that are under the FGL umbrella (about 17%). Canadian Tire also has PartSource, which sells automotive parts and owns 295 Gas+ gasoline stations.

Additionally, Canadian Tire has about 85.5% interest in **CT REIT**, a retail REIT which has Canadian Tire as its primary tenant. Canadian Tire generates a juicy distribution yield of about 5.4% from the REIT right now. Furthermore, Canadian Tire has a financial services segment that offers credit cards, retail deposits, and insurance products.

Recent performance

Here are some key metrics of the first half of 2018 compared to the first half of 2017:

	First half of 2017	First half of 2018	Change
Revenue	$6,095.5 million	$6,295.7 million	3.3%
Normalized adjusted EBITDA	$717.6 million	$675.1 million	-5.9%
Net income	$282.7 million	$234 million	-17.2%
Normalized diluted earnings per share	$4.04	$3.77	-6.6%

The second-quarter results were [a drag on Canadian Tire's performance](), which resulted in the roughly 10% dip mentioned earlier.

Is Canadian Tire truly cheap?

At $164.34 per share as of writing, Canadian Tire trades at a price-to-earnings ratio of about 14.9, while management estimates that through 2020, the company will grow its earnings per share by more than 10% per year. With a PEG ratio of 1.49, the stock is reasonably valued.

If Canadian Tire achieves the growth target, the stock can easily trade at $180-190 per share over the next 12 months, which would imply near-term upside potential of 9-16%.

Dividend safety

Canadian Tire has increased its dividend per share for seven consecutive years. Its three-year dividend-growth rate is 13.2%.

The quality retailer's quarterly dividend per share is 38% higher than it was a year ago. Yet its payout ratio is still very sustainable at about 32%. Going forward, investors can expect the stock to grow its dividend per share by at least 10% per year.

At the recent quotation, Canadian Tire offers a safe dividend yield of nearly 2.2%.

Investor takeaway

Canadian Tire is a quality Canadian retailer that has tended to outperform the TSX index or the Canadian market. It's awarded an investment-grade S&P credit rating of BBB+, and it has generated consistently high returns on equity.

Moreover, Canadian Tire can increase its dividend per share by at least 10% per year. On the recent dip, the stock is reasonably valued. Therefore, conservative investors should consider scaling in to the stock.

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