



## Why I'm Backing Up the Truck on This Iconic Canadian Company

### Description

What a ridiculous amount of volatility we've been hit with over the past month. Although it's easy to let your angst get the better of you, it's times like these where the markets are most inefficient, leaving ample opportunities across the board for investors to obtain excess risk-adjusted returns (alpha), or in other words, stocks that are priced at [discounts to their intrinsic value](#), something that academics believe is not possible when Mr. Market is efficient and pricing stocks rationally.

So, if you're not even thinking about buying stocks right now, you're taking a rain check on the stock market's Black Friday Blowout, which has indeed come early this year.

I've been on the hunt for bargains over the past month, and with the TSX in correction territory (+10% drop), I smell opportunity in shares of **Canadian Tire** ([TSX:CTC.A](#)), a stock that had been punished after the release of its sub-par second-quarter results, which have been severely exacerbated by the recent pullback in the broader market. At the time of writing, the stock is flirting with bear market territory with shares down 19% from their peak.

Although recent numbers have been soft, the company continues to put up a good fight in an era where hungry digital retailers have been wreaking havoc on almost all of the robust brick-and-mortar players of yesteryear.

Canadian Tire has made strides on its own direct-to-consumer (DTC) platform to offset some of the e-commerce pressures it's faced, but more importantly, management has focused in on key areas that'll allow Canadian Tire to widen its moat at a time where many other retailers have seen their moats wither away due to their inability to adapt to the tectonic shift that's going on in the world of retail right now.

With up-and-coming digital retailers popping up from across the board, it certainly seems like open season, as they go after the customers of traditional, low-tech physical retailers, many of which have no idea how to protect their share of the market.

Canadian Tire isn't one of the retailers just standing around, hoping that the rising trend of e-commerce will go away. Canadian Tire's management team has taken a proactive approach, doubling down on

initiatives that'll not only allow the company to survive but thrive in the new era of retail. The Tire has been investing heavily in its new Triangle loyalty program and has shown a willingness to bolster its already impressive portfolio of exclusive private label brands through acquisition (Sher-Wood) or exclusive partnerships (Petco).

While the Triangle loyalty program and the modern version of the sub-fiat currency, Canadian Tire money, will undoubtedly help keep customers coming back to Canadian Tire-owned stores including Mark's, SporkChek, and Canadian Tire, the fact remains that in an era of low switching costs and substitution, for many consumers, loyalty isn't going to be as effective as it was in the past.

The real key to Canadian Tire's future success lies in its private label brands, which will attract be the real glue that'll keep customers sticking around as [Amazon.com](https://www.amazon.com) continues to get stronger.

Why is branding the key to the success of Canadian Tire?

Exclusive brands like Mastercraft and Motomaster have gained a reputation for quality and affordability through customers. It's these trusted names that customers will look to if ever they need the tools for a job at hand. The products under such exclusive brand labels are definitely susceptible to the substitution effect, but through the power of branding, a consumer would much rather stick with a "trusted" product they know and love, rather than risk the level of quality (or safety) with a cheaper substitute item of an unknown, perhaps unreliable brand.

Moreover, with management slated to scoop up more trusted brands, I'm confident that Canadian Tire will be able to navigate the rough retail waters without taking too much damage, as a growing number of product offerings will be exclusive to Canadian Tire. The power of branding is profound, and I believe investors are severely discounting the long-term robustness of Canadian Tire and management's smart moat-enhancing strategy moving forward.

At just 11.5 times forward earnings, Canadian Tire stock is a gift at today's depressed levels.

Stay hungry. Stay Foolish.

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