



This Could Be the Most Undervalued Stock on the TSX Index

Description

Canadian Tire ([TSX:CTC.A](#)) could very well be the cheapest stock on the TSX today, now that the stock has surrendered all of the gains following the release of its [incredible third-quarter results](#).

The broader markets have been under tremendous pressure in the month of November, but I thought the post-earnings damage done to Canadian Tire was among the most unwarranted of falls that has opened up an opportunity for deep-value investors to pick up an iconic Canadian retailer at a substantial discount to its intrinsic value.

The “sell brick-and-mortar retail” fears are still sending shivers down the spines of many investors in spite of the tremendous progress that many of the stronger brick-and-mortar players have made to combat the rise of the disruptive e-commerce competitors.

In a prior piece, I noted that Canadian Tire wasn't only well-positioned to effectively adapt to the tectonic shift experienced in the world of retail, but that the company would ultimately be forced to become a better version of itself, potentially giving rise to the [best version of Canadian Tire](#) that's ever existed.

You see, Canadian Tire's management team is two steps ahead of the competition. Like Wayne Gretzky, they're going to where the puck is headed next, and they've always got their stick on the ice.

The company has invested a considerable amount of cash into loyalty programs and has doubled-down on private label brands like Helly Hansen, Sher-Wood, and Woods, to name a few. Moreover, Canadian Tire has beefed-up its own e-commerce platform while winning exclusive distribution partnerships with sought-after brand names, including Petco.

Exclusive merchandise and customer loyalty are the two main components to Canadian Tire's moat. Management has realized this and they're doubling-down on initiatives that will help the company further build upon its moat to keep its hungry digital disruptors farther at bay.

Today, Canadian Tire stock has fallen slightly below where it was before the release of its Q3 2018 quarterly results, a solid beat that saw management hike its dividend by 15% to go with a commitment

to repurchase up to \$400 million worth of shares through the end of 2019.

In addition, Canadian Tire saw promising same-store-sales growth (SSSG) numbers across all of its retail banners for the quarter. The company was indeed firing on all cylinders, but still, investors on the street have ditched the stock to the curb over fears which I believe are overblown beyond proportion.

Canadian Tire is buying back their own stock because it's severely undervalued, and management is taking advantage of an opportunity that'll pay significant dividends down the road.

At the time of writing, the stock trades at a 11.4 forward P/E, a 0.7 P/S, and a 11.7 P/CF, all of which are lower than the company's five-year historical average multiples of 15.3, 0.8, and 16.3, respectively. The dividend yield is the highest it's been in recent memory at 2.8%, and with double-digit annual dividend hikes likely on the horizon over the next decade, the stock looks like a must-own for value-oriented dividend-growth investors.

Foolish takeaway

Canadian Tire is ridiculously cheap and undeservedly so. If you're like me and aren't buying the irrational fears of the death of brick-and-mortar, now may be a time to double-down on shares as eventually, we'll reach a point where the earnings results will dictate the trajectory of the stock.

Stay hungry. Stay Foolish.

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