Is This Quality Retailer Cheap?

Description

Canadian Tire (TSX:CTC.A) stock has declined about 13% in the last 12 months, and it's about 21% below its 52-week high. The weakness in the stock may be a good entry point, as the growth stock's long-term upward trend is still intact.

Canadian Tire is a well-run company. In the time that Mr. Stephen Wetmore served as CEO, he led the company to new heights from 2009 to 2014, the years following the last recession. In the period, the company increased earnings per share by about 12% per year on average. Wetmore was re-appointed as Canadian Tire's president and CEO in July 2016, and shareholders look forward to stable growth in the quality retailer.

The impact of the Helly Hansen acquisition

The July acquisition of the Helly Hansen brands and related businesses, which is based in Norway, was a fitting addition to Canadian Tire's existing business. Not only does Helly Hansen add a leading global brand in sportswear and workwear, but it also speeds up Canadian Tire's ability to distribute its brands internationally, as Helly Hansen already has wholesale and retail distribution across more than 40 countries with its core markets being Norway, Canada, the U.K., the U.S., and Sweden.

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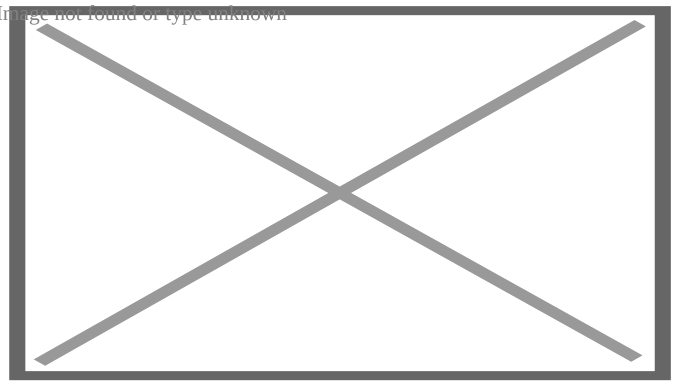

In the past three years, Helly Hansen experienced very good revenue and EBITDA growth at compound annual growth rates (CAGR) of 12% and 36%, respectively. Compare that to Canadian Tire's revenue and net income growth at CAGR of 2.5% and 6.7%, respectively, in the same period.

Notably, Helly Hansen won't be a big impact on Canadian Tire, as its annualized revenue is about $500 million, which is about 3.7% of Canadian Tire's 2017 revenue of $13.4 billion. However, Helly Hansen contributes in other ways, as mentioned earlier.

Canadian Tire's existing business

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 76.3% interest in **CT REIT**, a retail REIT which has Canadian Tire as its primary tenant. Canadian Tire generates a juicy dividend yield of about 6% from the REIT right now. The REIT's high cash distribution is supported by a sustainable adjusted funds from operations payout ratio of about 76%.

Recently, Canadian Tire launched the Triangle Rewards loyalty and credit card program, which allows its members to collect and redeem Canadian Tire Money across its banners as well as offers personalized communication and offerings. The program should increase customer engagement, improve customer retention, and improve customer shopping experiences across all of Canadian Tire's brands.

Now's not a bad time to buy some Canadian Tire shares

At about $143.50 per share as of writing, Canadian Tire trades at a price-to-earnings ratio of about 12.3, while the company is estimated to increase its earnings per share by about 10% per year over the next few years. So, the quality retailer is slightly undervalued with a PEG ratio of about 1.2.

Last month, the company increased its dividend per share by almost 15.3%, such that it now yields close to 3%. This increase aligns with the company's dividend increase at a CAGR of about 15% over the past 14 years.

Canadian Tire also indicated it will buy back about $300-400 million of its Class A non-voting shares by the end of 2019, which represents about 3.4-4.6% of its outstanding shares based on the current share price.

Both the dividend increase and share buyback show management's confidence in the company. The latter is also an indicator that management thinks the company shares are cheap.

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