Is Canadian Tire Corp (TSX:CTC.A) Stock a Good Buy Heading Into 2019?

Description

Canadian Tire (TSX:CTC.A) is one of Canada's most ubiquitous retailers. Operating a chain of automotive and hardware stores across the country, it has grown to over 1,700 locations nationwide. Depending on which timeframe you're looking at, it has also been a great investment. Since 2000, Canadian Tire class A shares have risen about 590% — trouncing the TSX's performance in the same period.

But in the past year, Canadian Tire stock has begun to cool off. Down 15% year to date, it has not given investors the kind of return they could count on in past years. Is this sluggish return merely a temporary symptom of broader stock market doldrums, or has Canadian Tire lost its touch? To answer that question, we need to closely examine the company's performance metrics. First, let's take a look at same-store sales.

Same-store sales

Same-store sales is one of the most important metrics for retail stores, because it reflects organic increases in demand for a company's products or awareness of its brand. In Q2, Canadian Tire's total sales were up 2.3%, while same-store sales were up 2%.

The fact that total sales grew more than same-store sales indicates that the lion's share of sales growth came from new store construction. Still, any growth in same-store sales is a good thing. Also, Canadian Tire's 2% year-on-year growth isn't so bad when we consider that this metric rarely reaches double digits.

Steady earnings growth

In addition to growth in same-store-sales, Canadian Tire's net earnings are also growing. In Q3 2018, revenue was up 11.2% and diluted EPS were up 21.7% year over year. This was a huge improvement over Q2, when the company faced criticism for a major earnings miss. Particularly impressive was the growth in financial services, where income before taxes grew 31% year over year.

Economic moat

One major reason for Canadian Tire's strong growth is its "economic moat." According to Warren Buffett, an economic moat is a company's ability to keep competitors from encroaching on its market share. Natural monopolies like utility and railroad stocks would be examples of businesses with economic moats.

In Canadian Tire's case, the "moat" is the simple fact that few competitors offering similar products exist at the moment. Although Princess Auto has somewhat similar products in some categories, the overlap is not 100%, which makes Canadian Tire fairly safe in its niche.

Cheap as dirt!

A final point in favour of Canadian Tire is the fact that it's pretty cheap at the moment. As of this writing, Canadian Tire traded at 13 times earnings, 0.6 times sales, and two times book value. These are pretty low numbers for a growing enterprise like this, and they contribute to the stock's fairly high dividend yield, which is about 3%. And on the topic of dividends, Canadian Tire's payout ratio is a mere 31%, so the company's payouts are safe and may even increase going forward.

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andrewbutton