This Smart Retailer Will Thrive if the Canadian Economy Tanks in 2019

Description

It's a key concept of contrarian investing that certain multiline retailers do well when the economy falters. When times get tough, the received wisdom suggests that folk tend to focus on their homes, with renovations and DIY projects enjoying an increase in popularity; meanwhile, mid-range food retailers tend to benefit concurrently from a downturn in restaurant activity driven by a populace tightening its belt.

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The following retailer fits the "against-the-grain" investment bill perfectly: a national-branded multiline retailer listed on the TSX index that carries both DIY and homeware goods and materials, as well as that other recession-friendly commodity: toys. "Pester power," (the ability of kids to drive sales of add-on goods), plus innovative moves in the e-commerce direction, make the following canny retailer a strong choice for a recession-ready dividend stock.

Canadian Tire (TSX:CTC.A)

This defensive multiline retailer is one of the best dividend payers in its industry, with a current yield of 2.92%. Those dividends have 10-year stability and a per-share increase over the same period. Looking to get invested? You have 30 days to decide until Canadian Tire hits its buy limit.

A one-year past earnings growth of only 1% trails the industry by a wide margin (multiline retail enjoyed 49.1% growth during the same period), with a five-year average past earnings growth not much better at just 5.7%: it seems the market has been cornered. A so-so PEG of 1.7 times growth looks a little naff combined with a high debt level of 157.4% of net worth. So far, so humdrum.

However, the rest of the data looks pretty good for this stalwart retail stock of the TSX index. In terms of value, for instance, its P/E of 13.1 times earnings is market weight, though it slightly exceeds the retail average, while a P/B of 2.1 times book is likewise a little high, but certainly not as high as some other popular Canadian stocks in overheated sectors.

Investors are unlikely to tire of this ticker in 2019

While an unremarkable ROE of 16% is pretty standard for the TSX index, an EPS of $10.85 shows that this is indeed a good-value, good-quality stock when you combine such stats with that market-weight P/E ratio and a discount by 12% compared to its projected cash flow value. A 7.9% expected annual growth in earnings caps off a generally positive quality metrics scan.

There are better momentum stocks on the TSX index than Canadian Tire, and if it's beat-up stocks you're after then you should definitely look elsewhere: this ticker is slow and steady, and just right for the long-term investor. While this ticker gained 3.3% in the last five days, you can largely put that down to the market rebounding, while a beta of 0.61 shows that this low-volatility stock will remain largely stolid when faced with wacky market oscillations like that Christmas Eve zinger.

The bottom line

Defensive much? A market cap of $9 billion, positive year-on-year growth, and stable dividends make for a pretty sturdy retail stock. There may be a good reason for Canadian Tire's price hike after the Christmas plunge — one that has to do with investors still keen to buy stocks, but moving into defensive realms. At the end of the day, uncertainty in the markets is good news for smart, recession-ready, TSX-listed companies like this one, with its catch-all spread of goods and e-commerce progression.

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