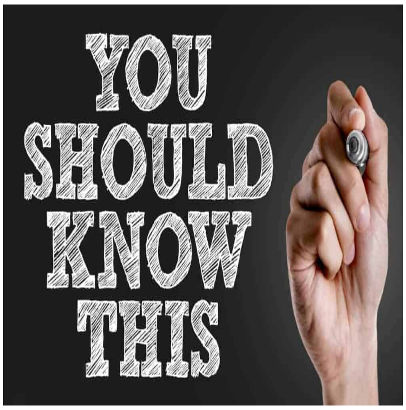


# This Growth Stock Is on Sale

## Description

**Canadian Tire** (TSX:CTC.A) has been an excellent growth story over many years. Despite the recent dip, from 2007, the retail stock has delivered returns of 7.6% per year on average. This is a decent return that doubled a $10,000 investment to $22,384 in the period.

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## Canadian Tire has been a good growth stock

You might think that Canadian Tire shouldn't be classified as a growth stock because of its long-term single-digit rate of return. That's why I should explain that it experienced two years of earnings-per-share (EPS) contraction during the last recession, which put it off track.

Since 2009, Canadian Tire's EPS have increased at a CAGR of 12% per year, which is very good growth for a stable dividend growth stock.

The retailer has hiked its dividend per share for eight consecutive years. If it weren't for the dividend freeze in 2009 (during the last recession), its dividend growth streak would have been even more stellar.

Its 15-year dividend growth rate is impressive at 16%.

## Did Canadian Tire grow its profitability in 2018?

Analysts previously estimated that Canadian Tire will grow its EPS by at least 10% per year over the next few years. That's why it might have thrown the market off when the company reported diluted EPS of $10.64 for 2018, which was essentially zero growth compared to 2017. Additionally, it was thanks to a 5.5% decrease in the share count from stock buybacks.

On further investigation, however, Canadian Tire had three normalizing items in 2018, which led to normalized diluted EPS growth of 12% to $11.95 year over year.

The normalizing items include one-time costs relating to the rollout of the Triangle Rewards program and costs incurred relating to the Helly Hansen acquisition. These costs aren't expected to be recurring. So, in this case, the normalized EPS is a better gauge of the business health.

Here's an overview of some key metrics of Canadian Tire's 2018 results.

| | 2017 | 2018 | Change |
|---|---|---|---|
| Retail sales | $14,980.7 million | $15,494.7 million | 3.4% |
| Revenue | $13,276.7 million | $14,058.7 million | 5.9% |
| Cost of producing revenue | $8,796.5 million | $9,347.4 million | 6.3% |
| Gross margin | $4,480.2 million | $4,711.3 million | 5.2% |
| Net income | $818.8 million | $783 million | -4.4% |
| Diluted EPS | $10.67 | $10.64 | -0.3% |
| Normalized diluted EPS | $10.67 | $11.95 | 12% |

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## Dividend hike? Yes, please!

On a normalized basis, Canadian Tire increased its EPS by 12% in 2018. That's why management was able to increase the healthy quarterly dividend by nearly 15.3% to $1.0375 per share. We expect a payout ratio of less than 35% assuming earnings will continue to grow this year.

## Is Canadian Tire stock a good value now?

Canadian Tire stock normally trades at a price-to-earnings ratio of 14.7, which implies a fair value of about $179 and the stock is undervalued by about 21% at roughly $140 per share (a P/E of 11.6). If things go smoothly for the company, the stock can trade as high as the $190 level over the next 12 months for 35% near-term upside.

The market is unpredictable. So, it'd be more rational to expect total returns anywhere between 12-35% over the next year in the stable dividend growth stock. The stock offers a sure yield of nearly 3% as a part of the total returns.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

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