This Severely Undervalued Dividend Stock Deserves Your Attention

Description

Canadian Tire (TSX:CTC.A) got unfairly walloped around 5% following the release of its fourth-quarter earnings. While the quarter was nothing to write home about, I believe the results for the quarter (and the year) weren't as dire as implied by the immediate pullback.

For 2018, the company posted 6% in top-line growth to go with 12% in adjusted EBITDA margins, which while mediocre, wasn't too bad given the slight slowdown experienced in the latter part of the year. On the comps front, Canadian Tire, FGL Sports, and Marks clocked in 1.7%, 0.8%, and 2.6%, respectively, in sales growth, most of which were fairly in line with analyst expectations.

On the call, the management team shed light on its forward-looking plan to further bolster its already impressive portfolio of exclusive brands. It's these brands that I believe will continue to serve as a main attraction for both the brick-and-mortar stores as well as the company's ever-improving digital platform. One of Canadian Tire's latest (and largest) acquisitions, Helly Hansen, will continue to propel sales growth, as newer offerings continue to be rolled out across Canadian Tire locations.

In a prior piece, I noted that Canadian Tire's exclusive brands would serve as a moat for the brick-and-mortar player that was at risk of losing traction to up-and-coming digitized retailers. Combined with the company's wide nationwide footprint, I believe many investors are severely discounting Canadian Tire's real durable competitive advantage as a physical retailer.

Exclusive brands will not only propel sales, but with premium brands like Helly Hansen in the portfolio, margins are likely to go on the uptrend, providing a boon for the bottom line when most other brick-and-mortar retailers are struggling to sustainable positive comparable growth numbers.

Operational improvements across the board can only be described as remarkable, and as management gets ready to pull the trigger on the next big brand, investors would be wise to nibble away at shares on the current dip, especially now that the bar has been lowered.

With the stock now trading at the cheapest level since the Great Recession, value investors would be wise to nibble away at shares while they remain depressed. The stock trades at 10.7 times forward earnings, which is absolutely ridiculous given the 9% in EPS CAGR that's been posted over the last decade.

Indeed, investors are afraid of brick-and-mortar, but as one of the meatiest retailers out there, I believe Canadian Tire has plenty room to run, and as the dividend yield swells north of the 3% mark, I suspect that many investors will be more willing to buy and hold the name for their dividend growth portfolios.

Foolish takeaway

Canadian Tire didn't deserve to flop 5% after the release of its Q4 and full-year results. The company is fairing way better than most other brick-and-mortar players out there. With enough financial wiggle room to pursue another big acquisition, watch for Canadian Tire to make up for lost time in 2019, as Canadians begin to recognize the stock that's quickly approaching deep value territory.

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