TFSA Investors: The TSX Index's Cheapest Stock Just Got Cheaper

Description

Cheap is a subjective term, and on the basis of traditional valuation metrics, the "cheapest stock" I'm going to bring your attention to isn't necessarily the cheapest on the TSX. But factoring in the quality of earnings, management, and the company's long-term growth trajectory, I believe **Canadian Tire** (TSX:CTC.A) is the cheapest when you consider the discrepancy between the stock's market value, which is severely depressed at the time of writing, and the stock's intrinsic value, the best gauge of what a stock should be worth today.

Now, intrinsic value is tough to measure, and in an efficient market, stocks trading at substantial discounts to their intrinsic value are few and far between. Given the lower volumes and the choppiness brought forth by the Canadian energy market, however, I believe investors have the opportunity to pay a dime to get a dollar, especially with a name as misunderstood as Canadian Tire.

A great way to pump up your TFSA's tires

Canadian Tire is a Canadian icon, and while it's feeling the pressure from e-commerce kings like **Amazon.com**, it'd be foolish (that's a lower case "f") to think that the Tire is going to go down without a fight. Not only does Canadian Tire have the advantage of knowing Canadians better, but it's got a deep physical penetration across the nation with its brick-and-mortar stores. If you need heavy duty items, appliances, auto parts, or home improvement stuff, you'd be better off at the Canadian Tire down the street where you can get advice before you buy.

Now, Canadian Tire isn't necessarily a home or auto improvement store though. Over the decades, the company has transformed into more of a generic retailer of small, durable items, sports goods, workwear, and outerwear, all of which make sense to purchase online. And as we've witnessed over the last few quarters, a handful of customers have decided to go with Canadian Tire's online counterparts.

Despite the digital disruption, which I'd describe as mild considering the impact on the top-line numbers, I believe Canadian Tire is still skating in the right direction given the disruption.

Management has proven that it can drive store traffic by investing in the in-store experience. When combined with the new Triangle loyalty program, the exclusive brand portfolio that will continue to grow, and the opportunity to further bolster its web presence, I believe the discount slapped on Canadian Tire shares is hugely unwarranted.

Sure, Amazon is breathing down the retailer's neck, but if you're a prospective customer who wants to "try before they buy" or are interested in Helly Hansen or any one of the Canadian Tire exclusives, you're going to need to head on over to a Canadian Tire-owned store. And while you're there, you can be sure that the experience, the loyalty program, and the exclusive branded merchandise (what I refer to as "main attractions") will have you favouring the good old Tire over Amazon or any other digital competitor.

Add the recent patriotic "buy Canadian" consumer mentality into the equation, and I think Canadian Tire has what it takes to thrive in spite of the current pressures put forth by Amazon and the like.

Foolish takeaway on Canadian Tire stock

Comps numbers continue to trend up at Canadian Tire and its subsidiaries, and with the company's current advantages, I think investors would be wise not to overly discount the company's abilities, despite potential fears over the rise of Canadian Tire's digital counterparts.

As we head into 2019, don't be surprised if Canadian Tire's next big acquisition sends the stock into the atmosphere.

At the time of writing, Canadian Tire stock trades at a measly 0.6 times sales (TTM) and just 7.2 times cash flow (TTM). That's ridiculously cheap, and with the highest dividend yield (3%) it's had since the Great Recession, value investors should be all over Canadian Tire shares at just $140 and change.

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