



TFSA Investors: 1 Oversold TSX Index Darling to Buy and Hold for Decades

Description

Canadian Tire ([TSX:CTC.A](#)) is a dirt-cheap stock with a business that I believe is vastly misunderstood by investors. The legendary brick-and-mortar retailer experienced a bear market moment in 2018, as increasing competition caused many investors to question whether the company's best days are behind it and if past year growth numbers will be sustainable over the next five years and beyond.

Seeing as Canadian Tire has been a dividend-growth stud that's offered investors the perfect blend of dividends, dividend growth, and capital gains over time, skeptics are right to be concerned by the hazy road that lies ahead.

Is its moat wide enough to fend off competitors over the long term?

It's not just the rise of e-commerce that has investors spooked. [Foreign brick-and-mortar firms](#) are moving deeper into Canadian Tire's turf, and as they look to increase their Canadian footprint, we're going to see Canadian Tire's moat put to the test.

Canadian Tire's top-tier management team isn't going to sit around to see what happens as the competitive landscape becomes fiercer, though. The company made it clear that it intends to acquire more consumer brands moving forward with the hopes of widening its competitive moat.

Exclusive brands, the Triangle loyalty program and the "tested for life in Canada" program will likely serve as major building blocks to Canadian Tire's moat. Although only time will tell, I think Canadian Tire's continued moat-strengthening efforts will eventually be enough to offset the negative impact of increasing competition.

In prior pieces, I'd noted that a vast portfolio of exclusive brands was going to be the key to Canadian Tire's continued success. I was one of the few investors who applauded the acquisition of Helly Hansen despite the hefty \$985 million price tag, as I thought the label had the potential to become one

of many “main attractions” to Canadian Tire’s SportChek stores.

Helly Hansen was a big deal that was going to keep management very busy, but that didn’t stop them from making further deals in the background.

Simply put, Canadian Tire is putting its foot on the gas to build on its moat, and although such a strategy may be deemed aggressive by some, I think it’s the right move over the long haul, because Canadian consumers are going to take their business if exciting new offerings aren’t made available.

Hands in too many pies?

Fellow Fool Will Ashworth seems to think that Canadian Tire has its [“hands in too many pies”](#) with the multitude of deals it’s been making.

While Canadian Tire appears to be biting off more than it can chew, I think the company is more than willing to put in the extra effort to become a disruptor in new markets (like pet food), as it plays the role of disruptee in existing markets (sports goods) to offset imminent sales pressures.

In a way, Canadian Tire may be looking to play both offence and defence, but most investors only see Canadian Tire as a defender at this juncture. Given management’s solid operational track record, I think the Tire has the potential to be a huge winner again should the company perfect its offensive and defensive strategies.

Foolish takeaway on Canadian Tire

At the time of writing, the stock trades at 11.6 times next year’s expected earnings, well below the five-year historical average P/E of 15.9. I think the stock is too depressed and that investors are heavily discounting the potential of the brand-acquisition strategy.

If you’re not buying the slow and steady fall of Canadian Tire, it’s time to buy shares and lock in that 2.75% dividend yield in your TFSA before the company has a chance to deliver a big upside surprise.

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