



Investors: This Retail Stock Is Grossly Undervalued

Description

Shares of Canada's top retail company **Canadian Tire** ([TSX:CTC.A](#)) have fallen 17% in the last 12 months and have declined close to 6% year to date. Though CTC has underperformed broader indices, the pullback over the last year provides an opportunity for investors.

Here, we look at Canadian Tire's valuation, growth metrics, key drivers and upside potential to understand why it is an excellent pick at the current price.

Why CTC is undervalued

CTC has several business units such as retail, CT REIT, and Financial Services. Analysts expect Canadian Tire to expand revenue by 4.6% from \$14.06 billion in 2018 to \$14.7 billion in 2019. Sales are also estimated to grow 4.7% to \$15.4 billion in 2020 and 2.1% to \$15.73 billion in 2021. Company earnings are expected to grow at a higher rate.

Analysts expect earnings to rise by 7.6% in 2019 and 10.2% in 2020. Compare this to CTC's forward price to earnings multiple of 9.5 and we can see that the stock is trading at a cheap valuation. CTC is valued at \$8.6 billion, which is 0.6 times 2019 sales.

Comparatively, **Canada Goose** is valued at 5.1 times 2019 sales, though its growth metrics are far higher.

Its acquisition of Party City will drive sales higher

Last month CTC announced the [acquisition of Party City](#) for \$174.4 million. This acquisition will help CTC to diversify revenue and overcome product cyclicity in the retail segment. Party City is a leader in its segment and across product categories. It has 65 corporate retail stores in Canada.

Party City sales have risen at an annual rate of 10% between 2015 and 2018. It reported revenue of \$140 million in 2018. The company has managed to grow EBITDA by 40% annually between 2015 and

2018, indicating high operating leverage and expanding profit margins.

CTC has estimated Party City's retail sales to double to \$280 million by 2021. Its EBITDA is also expected to rise from \$18 million to \$50 million in this period.

CTC executive Allan MacDonald stated the Party City acquisition is "a natural extension for us and has a lot of room to grow. The category is almost \$2 billion in Canada today and it's actually quite fragmented. By combining Party City and Canadian Tire, we'll consolidate two significant players and immediately become the #1 party supply retailer in Canada."

Focus on e-commerce sales

CTC managed to exceed forecasts for e-commerce sales in the second quarter of 2019. It continues to gain web and mobile application traffic, which in turn are key drivers for online sales. The company recently appointed a CTC Digital head to accelerate the development and execution of online sales and strategy across segments.

Its Triangle Rewards program allows CTC to increase user engagement and customer loyalty, resulting in repeat purchases.

While there are [have been concerns](#) over Canadian Tire's SportCheck vertical, CTC experienced revenue expansion across business segments in the second quarter and is poised for robust sustainable growth.

Analysts remain optimistic about CTC and have a 12-month average target price of \$170 for the stock. This indicates an upside potential of 26% from the current price.

CATEGORY

1. Investing
2. Top TSX Stocks

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Top TSX Stocks

Date

2025/08/25

Date Created

2019/09/05

Author

araghunath

default watermark

default watermark