



## Canada Revenue Agency: Achieve 100% Gains Tax Free!

### Description

**Canadian Tire** (TSX:CTC)([TSX:CTC.A](https://www.canadiantire.ca)) is engaged in [three main business operations](#). This includes its retail goods and services (general merchandise, apparel, sporting goods and petroleum), financial services (bank) and real estate operations.

### Intrinsic price

Based on my calculations using a discounted cash flow (DCF) valuation model, I determined that Canadian Tire has an intrinsic value of \$311.20 per share.

Assuming less than average industry growth, the intrinsic value would be \$262.62 per share and higher than average industry growth would result in an intrinsic value of \$380.14 per share.

At the current share price of \$147.72, I believe that Canadian Tire is seriously undervalued. Investors looking to add a dividend paying retail company to their TFSA should consider buying shares of Canadian Tire.

I'd recommend following the stock and waiting until the end of 2020, as there is a possibility that a pending recession will put downward pressure on the price.

Canadian Tire has an enterprise value of \$24.8 billion, which represents the theoretical price a buyer would pay for all of Canadian Tire's outstanding shares plus its debt.

One of the good things about Canadian Tire is its low leverage with debt at 31.8% of total capital versus equity at 68.2% of total capital.

### Financial highlights

For the nine months ended September 28, 2019, the company reports a strong balance sheet with positive retained earnings of \$3.5 billion.

This is a good sign for investors, as positive retained earnings represents the cumulative net income the company has reinvested in itself.

Inventories are up to \$2.6 billion from \$2 billion as at December 29, 2018. This represents a 31% gain over a period of nine months and suggests that Canadian Tire is anticipating increased demand for its products.

The company also ended the period with a \$226 million cash balance, giving the company the flexibility to meet its cash flow obligations.

Overall revenues are up slightly from \$9.9 billion in 2018 to \$10.2 billion in 2019 (+3%) driven by a \$270 million increase in Helly Hansen sales. Net income for the period is \$529 million, up from \$505 million the prior year.

A couple of things stand out to me on the cash flow statement, which includes a \$763 million acquisition in 2018 and the reduction of (and repayment of) long-term debt.

The \$763 million is in relation to the Helly Hansen acquisition in 2018 that Canadian Tire purchased from the Ontario Teachers' Pension Plan for \$985 million plus \$50 million in debt.

The company also repaid \$501 million in long-term debt while simultaneously reducing the issuance of long-term debt to \$571 million in 2019 from \$1.4 billion in 2018.

Canadian Tire also repurchased \$207 million in outstanding shares during this period, suggesting that its share price is undervalued.

## Foolish takeaway

Investors looking to buy shares of a financially stable retail company should consider [buying shares](#) of Canadian Tire. 2020 will inevitably be a rough year for the markets and I recommend that investors follow Canadian Tire's share price to determine an appropriate time to buy in.

Based on my discounted cash flow valuation model, I believe Canadian Tire has an intrinsic value of \$311.20 per share, which represents a premium compared to the \$147.72 at which it is currently trading.

Investors will be generously rewarded by buying and holding Canadian Tire.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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

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1. Investing

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