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Description

Canadian Tire (TSX:CTC)(TSX:CTC.A) 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.

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1. Investing

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