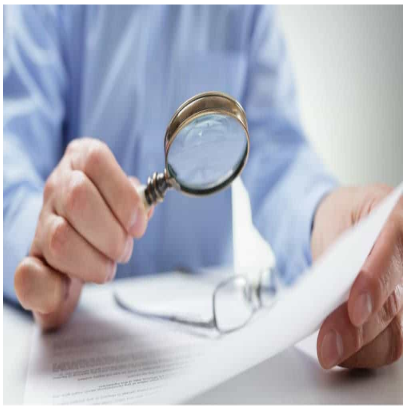

3 Unbelievable Reasons to Buy Canadian Tire (TSX:CTC.A)

Description

If I were to announce that Canadian Tire was a great long-term investment a decade ago, most investors would have keeled over laughing. Today, few investors can argue that the iconic retailer is a great long-term investment.

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Most Canadians will have fond memories of “the Tire.” Whether it was grabbing a new bike, skates, sporting goods or automotive parts, Canadian Tire always offered the perfect mix of products.

Let’s take a look at a few reasons why Canadian Tire belongs in your portfolio.

This is not your parents’ Canadian Tire

Traditional brick-and-mortar stores are facing an increasing threat from online retailers. In short, online stores do not require massive (and expensive) stores that are staffed by sales clerks. They also do not need printed weekly flyers and need not worry about foot traffic coming into stores.

This puts traditional retailers at a huge disadvantage, leaving them no choice but to evolve and embrace a digital storefront or become irrelevant.

Fortunately, Canadian Tire invested heavily on this front, becoming a shining example for other traditional retailers to follow. The company integrated technology into all parts of the buying process in a way that enhances the sales process. Examples of this include adding a driving simulator that lets you try out new tires in different weather conditions before purchasing, and running on a special treadmill that will help pick the best pair of shoes.

Beyond technology advances, Canadian Tire is also shoring up its arsenal of core store brands, which are only available in Canadian Tire stores and online. This serves to create a moat around the store, providing yet another reason for shoppers to return.

The company further solidified (and expanded) its core business through a number of other acquisitions in recent years, such as Helly Hensen sportswear, and, more recently, the acquisition of the Canadian retail business of Party City.

Strong results

In the most recent quarter, Canadian Tire saw comparable sales rise by 2.7% in the quarter, which worked out to a 3.4% gain over the course of the fiscal year. In terms of earnings, the company reported diluted earnings per share of $3.20, reflecting a respectable 1.5% gain over the same period last year.

The investment into technology and online sales are paying off, as Canadian Tire reported $500 million in sales stemming from its e-commerce retailers in the trailing 12-month period.

Adding to those gains, Canadian Tire also announced an efficiency program that is targeting $200 million in annualized savings through 2022.

Incredibly, despite the strong growth prospects and favourable results, the stock still trades at attractive levels, with the P/E coming in at just 12.93.

Handsome dividend

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Most retailers pay a paltry dividend or forego one altogether. In the case of Canadian Tire, the company not only offers a handsome dividend but recently announced the 11th increase in 10 years.

The most recent uptick to the dividend comes in at an impressive 9.6%, translating into an annual $4.55 per share and an appetizing yield of 3.13%. This easily places Canadian Tire as one of the better-paying dividend investments on the market.

Final thoughts

Canadian Tire is not only a great investment but is a complete package. The company provides strong growth prospects, a handsome dividend, and is becoming increasingly diversified thanks to its growing portfolio of online and traditional retail stores.

In short, buy it, hold it, and get rich.

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