This Well-Loved TSX Stock Is Trading at a Massive Discount

Description

When it comes to stores that almost every Canadian shops at, there are few that span the country and have the loyalty and business of the masses.

One company that's a classic piece of Canada, and a store that probably every person goes in for one reason or another, is **Canadian Tire** (TSX:CTC.A).

Canadian Tire has a massive footprint across Canada, especially because its stores consist of more than just the Canadian Tire banners, it also consists of Sportchek, Mark's, and many more, including its most recent acquisition Party City Canada.

The stock's been up and down the last 12 months and now sits just below the middle of its 52-week range, so what's next for the stock?

Canadian Tire has faced a number of headwinds that have kept the stock range bound for the last 12 months.

Retail environment

The biggest headwind it faces is common among retail companies, as it continues to face pressure in the wake of the growing online shopping trend, although it's addressed it well in a number of ways.

Firstly, a lot of the goods it sells aren't the type of thing consumers are frequently shopping for online.

Secondly, for the items it sells that can be purchased elsewhere, it's done a good job of improving its websites, making it easier for consumers to find and buy products across all its store banners.

In addition, its strong loyalty program continues to bring long-time customers back in the stores where the company can take advantage of its brilliant merchandising to continue to try and grow sales.

Canadian Tire Financial

The stock has faced more problems than just online shopping, however. It's faced criticism over its financial arm, which holds a massive loan portfolio, that some investors think could cause the company major problems.

The fact of the matter is, Canadian Tire has been growing its financial services business for a while, and the growth has contributed to higher revenue and more income for the segment.

Although higher-growth and the strong likelihood of increased write-offs aren't a great combination, it all depends on how much of Canadian Tire's loans end up having to be written off, and so far, its net write-offs are still manageable at just 6%.

The real worry is the size of its gross average accounts receivable, which is currently more than $6.4 billion — a more than 5% increase from the same period a year ago and nearly a third of the company's total assets.

Attractive share price

Despite these issues, which have limited the upside in the stock, they have actually helped to keep the stock at an attractive entry point for investors.

The company is trading at a price-to-earnings ratio of just 12.8 times, and its dividend, which has a payout ratio of just 36%, has a current yield of roughly 3.2%. That's an attractive yield for a company retaining two-thirds of its earnings to invest in growth.

Canadian Tire has a lot of positives going on for itself that are easy to ignore when headwinds make all the headlines. But its diverse business, that's been focused on growing its wide range of brands and products while continuing to improve the customer experience both in store and online, has been working for it.

The company not only has numerous retail brands in its portfolio but also has a strong financial arm, a large petroleum distribution network and a nearly 70% stake in the real estate fund **CT REIT**.

The wide range of operations gives its business strong diversification to help reduce risk, allowing the company to operate more smoothly and consistently.

This consistency is easily noticeable when looking at its past return on equity numbers, not only consistent but also impressive averaging nearly 14.5% over the last five years.

Bottom line

If Canadian Tire can continue its strong execution, there is no reason why its stock can't continue to grow rapidly, as the company improves its already dominant position.

Investors looking to add a top company to their portfolio should use this overreaction from the market to get a piece of this high-quality Canadian icon soon, because before you know it, the stock will be making new 52-week highs again.

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