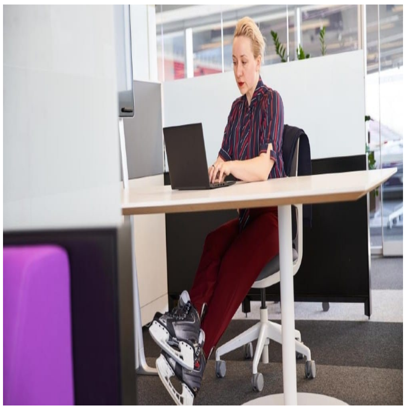

Canadian Tire Stock Just Plunged 50% — Should You Buy?

Description

Canadian Tire (TSX:CTC.A) stock lost just over half of its value amid the coronavirus crash as retailers scramble to deal with deteriorating store traffic and free-falling sales. The coronavirus wasn't the only author of Canadian Tire's pains, though. The stock was a dog well before the pandemic gripped the global economy.

What's pressing Canadian Tire stock? It's not just the coronavirus

In a prior piece, I highlighted many reasons for selling the stock, warning investors of Canadian Tire's slowness to respond to rapidly rising competition. It has also made a slew of confusing consumer product acquisitions and partnerships. These range from party supplies and winter coats to hockey sticks and pet food.

Short-sellers were also setting their crosshairs on the name. They slammed Canadian Tire's credit card business, noting its vulnerability (just like Canadian banks) to a credit cycle downturn.

As a former shareholder, it was tough to break up with the iconic Canadian retailer. But with all the challenges, it was tough to justify owning a name with a long-term thesis that was becoming hard to understand.

Management hiked its dividend at a time the stock was under pressure. I thought the acquisitions didn't create that much value for long-term shareholders. The Tire is currently sitting on $8.3 billion in debt, which is a considerable amount given the firm's market cap is a mere $6.3 billion at the time of writing.

On the other hand, it is encouraging that management is taking "aggressive" action to maintain financial flexibility as Canada moves through this crisis.

There’s cheap, ridiculously cheap, and then there’s Canadian Tire stock’s level of cheap

While COVID-19 is going to hurt the numbers for the next few quarters, I still believe the legendary retailer will pull through these tough times and get back to addressing its industry- and company-specific issues. The company’s brands are too powerful and it has an excellent, extensive network of locations.

In due time, I suspect the company will pull back from inorganic initiatives, trim its debt, and spend on organic efforts to bolster same-store sales growth (SSSG) across its banners. It needs to invest in infrastructure modernization, both on and offline.

Sure, there are many headwinds right now, but the recent +50% peak-to-trough plunge during the coronavirus crash is overblown, in my view. Canadian Tire has its fair share of baggage, and it deserves to trade at a discount relative to historical averages. Butut at these depths, I think the discount is excessive, presenting a compelling value to be had for those willing to go against the grain.

Foolish takeaway

At a certain price range, every stock, even ones with seemingly insurmountable headwinds, becomes a buy. And I think Canadian Tire is in such a range, with shares under $100.

At the time of writing, Canadian Tire stock trades at 0.39 times sales and 1.38 times book. For a discretionary retailer with such a magnitude of brand equity, the stock is far too cheap to ignore for long-term investors looking to play the market recovery.

Sure, Canadian Tire will still face challenges long after COVID-19 is a distant memory. But if any management has what it takes to overcome those challenges, it’s Canadian Tire. The 4.8%-yielding dividend looks safe and is an incentive to hang onto the stock for years at a time.

Stay hungry. Stay Foolish.

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