



Buy Canadian Tire Stock on the Market Rally

Description

If you're a Tax-Free Savings Account (TFSA) investor who's waiting for the perfect time to put your 2020 contribution to work or are looking to invest a portion of your Canada Emergency Response Benefit (CERB), **Canadian Tire** ([TSX:CTC.A](#)) stock may be [the best horse to bet on](#) at this juncture.

The iconic Canadian retailer ran into a slew of industry- and company-specific industries well before the coronavirus pandemic sent the stock crashing another 52% from peak to trough.

Canadian Tire stock blows a tire

It's been the [perfect storm](#) for Canadian Tire stock — as it was for many other retailers in these unprecedented times. Physical distancing practices and a reluctance to step outside have caused in-store traffic to diminish drastically over the past few months.

With a potential reopening of the Canadian economy on the horizon for the summer, there is still hope for Canadian Tire stock. But even if the federal government gives the green light for Canadians to return to the normal routine, many will likely continue to be wary of crowded public places like the shopping malls or the local Sport Chek.

Moreover, a second wave of a seasonal coronavirus could induce a second lockdown next fall or winter. If this happens, analysts may be at risk of downplaying the intermediate-term impact on discretionary retailers that may be in for another round of shuttering (SportChek and Marks remain temporarily closed amid the shutdown).

When it comes to Canadian Tire stock, which has been dragged down by short attacks, the damage has now become overdone, especially given that physical distancing is possible in Canadian Tire's massive flagship stores — all of which are in close proximity to the average Canadian.

Sure, Canadian Tire had its fair share of baggage before COVID-19 disrupted the retail scene. But none of the issues were detrimental to Canadian Tire's long-term fundamentals. Even if the turbulence in the retail scene lingers for longer than expected, Canadian Tire has more than enough liquidity to

ride out the rough terrain and not blow a tire.

Canadian Tire stock is severely undervalued, even given the headwinds

While I don't agree with the strategic moves that management has made in the past, such as paying up to acquire exclusive branded merchandise (think Helly Hansen), I am still in the belief that there's a price at which every stock, even those of less-than-stellar businesses, becomes a buy.

And at \$96 and change, Canadian Tire stock is such a buy despite the slew of seemingly insurmountable headwinds.

At the time of writing, Canadian Tire stock trades at 0.41 times sales and 1.46 times book, a rock-bottom multiple for such an iconic national brand.

Will Canadian Tire survive the coronavirus onslaught if the pandemic drags to year-end?

The company is in a financially tight situation, with \$5 billion in debt weighing down the balance sheet. Printing Canadian Tire money won't be able to alleviate the near-term pressures as COVID-19 continues to drag down operating cash flows for the year.

However, I am enticed by the firm's \$4.5 billion in liquidity comprised of cash, revolving credit facilities, and bank lines, which is more than enough to weather not only the current COVID-19 lockdown, but also a second wave.

So yes, Canadian Tire will survive because its liquidity position is robust despite its high debt-to-equity ratio.

Foolish takeaway

Canadian Tire isn't going anywhere. And if it turns out that there's no resurgence of the coronavirus (or if it's muted), the 4.7%-yielding dividend will survive.

My takeaway? Buy the severely battered iconic retailer now because more than just a recession is baked into the share price here.

Stay hungry. Stay Foolish.

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

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