Market Rally: Time to Buy Canadian Tire (TSX:CTC.A) Stock?

Description

Canadian Tire (TSX:CTC.A) is a Canadian icon. Long-term shareholders have grown rich by holding the stock. The coronavirus took a toll on shares, but the recent market rally could signal a limited-time buying opportunity.

As one of the country's largest retailers, Canadian Tire was hit hard by social-distancing measures. Foot traffic at its stores has dipped hard, while two economic shocks could lower domestic spending further.

When the downturn began, Canadian Tire stock lost more than one-third of its value. The latest market rally has pushed stock prices higher, but Canadian Tire shares remain close to their previous lows. Could this be your chance to profit?

The correction was hard

With 1,700 retail locations, Canadian Tire is completely dependent on the health and stability of Canadian consumers. Its business lines are diverse.

The main storefront is the eponymous Canadian Tire, a retail and automotive service operation with a large car repair garage in each store. Additionally, the company operates Canadian Tire Petroleum, Mark's (a footwear and apparel retailer), FGL Sports (a sporting goods retailer), and PartSource (which sells auto parts and accessories).

Previous to the market rally, there was, of course, a difficult market correction. Last month, Canada unveiled the worst jobs report in history. More than three million Canadians are now out of work or have seen their hours reduced. Consumer debt levels were already a concern, not to mention a potential housing bubble across several metropolitan areas.

In combination, it’s not difficult to see why Canadian Tire stock has suffered. Investors are hoping that the latest market rally will instill more confidence into the economy. A return to normalcy would be a major boon to brick-and-mortar retailers like Canadian Tire.

With shares nearly 40% lower their than pre-pandemic highs, is now the time to jump in?

Buy the market rally?

There’s no doubt that renewed confidence in the economy will help Canadian Tire, but how encouraging is the recent market rally?

Canadian Tire relies on two factors to make money: foot traffic and average spend per customer. These two items will determine the future of the stock price.

Foot traffic in the coming months will be directly tied to the coronavirus pandemic. How long will consumers be hesitant to frequent public areas? We may see restrictions lifted in coming weeks, but it would be surprising to see everyday Canadian behaviour return to 2019 levels.

That means Canadian Tire may see depressed foot traffic through the rest of 2020. And if a virus resurgence occurs next winter, the lower traffic levels could become a norm for the company.

And despite the market rally, average spend per customer is also a difficult factor to bet on. Millions of Canadians are out of work. Those with jobs are likely much more cautious about their spending. An upcoming housing crisis could reduce consumer spending even further.

And we’re not even factoring in the oil crisis. Most of Canada’s energy production is now completely uneconomic. If oil prices don’t rise by at least 50% in 2020, we could see another major economic headwind arrive.

Canadian Tire stock now trades at eight times trailing earnings. That’s a 50% reduction from its five-year average. But with a high fixed-cost business, it’s likely the company will post *negative* earnings in the quarters to come. Even at today’s depressed levels, shares are still not pricing in a prolonged economic downturn.

The market rally has pushed some stock prices higher, but there’s a reason why Canadian Tire shares haven’t moved much. Even with the current discount, the stock isn’t cheap enough to take a chance on.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/08/26
Date Created
2020/04/27
Author
rvanzo