Canadian Tire (TSX:CTC.A) Could Be the Biggest Bargain on the TSX Index

Description

Canadian Tire (TSX:CTC.A) stock looks to be one of the deepest value plays that still exists on the **TSX Index** amid the recovery in the broader markets. Heading into a recession, a discretionary brick-and-mortar retailer would probably be one of the last things you should be looking to buy.

Given the severely overextended sell-off in Canadian Tire stock coupled with the possibility that the global economy could recover in record time due to the unprecedented amounts of fiscal stimulus (with likely more on the way), I view Canadian Tire as one of the names that Mr. Market has mispriced to the downside.

And in due time, I do see the stock correcting to the upside once investors recognize they've been way too bearish on a company with its long-term fundamentals fully intact.

Canadian Tire has its fair share of issues, but the stock has become way too cheap to ignore

Sure, Canadian Tire isn't the best retailer in the world. The company had its fair share of baggage well before the coronavirus wreaked havoc on the Canadian economy. Short-sellers were targeting the name for well over a year over company-specific issues, many of which have yet to be addressed by management.

With all the non-stop negativity surrounding Canadian Tire over the past year or so, it's easy to shun the name and look at the coronavirus as an accelerant of the historic physical retailer's demise.

Given the legendary status of the Canadian Tire brand and the firm's sufficient liquidity position, I'd say that investors stand to get a heck of a lot more than they're bargaining for by going against the grain here.

I'm in the belief that every business becomes a buy if the price is right. And given that Canadian Tire isn't as hideous as its stock chart makes it to be, the stock is a pound-the-table buy at these depths.

Canadian Tire stock's risk/reward hasn't looked this good since the last crisis

First, Canadian Tire isn't at high (or even medium) risk going under, even with the coronavirus (and an ensuing recession) standing to weigh on the results. The company has more than enough liquidity to weather the coronavirus pandemic, even under the worst-case scenario where it drags on all the way through year-end.

Second, I view Canadian Tire stock as a name that could really take off once the economy begins the process of re-opening as soon as late spring.

"Once the risk of getting infected is diminished, many Canadians will be longing for some return to normalcy as the economy looks to cautiously re-open for business, whether that means going to the restaurant or the local Canadian Tire to pick up that discretionary good," I said in a prior piece.

Foolish takeaway

With CTC.A stock trading at 1.4 times book and 0.4 times sales, it seems as though some risk of bankruptcy is baked in with an assumption that a return pre-pandemic normality will take many years, neither of which, I believe, are a very likely scenario. Although such situations are unlikely, neither is impossible.

Fortunately, I believe Canadian Tire stock has a relative margin of safety with shares below $100, and the 4.7%-yielding dividend is bountiful enough to reward investors as they wait for a gradual return to semi-normalcy.

So, if you missed the chance to scoop up a bargain from the market crash, Canadian Tire stock is shaping up to look like a pretty compelling "catch-up" investment.

Stay hungry. Stay Foolish.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Stocks for Beginners

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. Dividend Stocks
3. Stocks for Beginners

Date
2025/08/20
Date Created
2020/04/29
Author
joefrenette