Canadian Tire (TSX:CTC.A) Is a No-Brainer Buy Before the Economy Re-Opens

Description

Canadian Tire (TSX:CTC.A) is an iconic Canadian company that has more than enough liquidity to survive the coronavirus pandemic. The rise of e-commerce disruptors have taken a toll on the stocks of traditional brick-and-mortar retailers over the years, and some bears may see the coronavirus-induced lockdown as the final nail in the coffin for the noncompetitive retailers of yesteryear.

Although Canadian Tire had endured its fair share of challenges well before the coronavirus pandemic closed down the Canadian economy, I think that the legendary retailer is in a great position to come roaring back once provinces across the country gradually begin to re-open non-essential portions of the economy. Canadian Tire stock has become just too cheap for value investors to ignore in spite of the great uncertainties.

A slow and steady recovery could be in the cards for Canadian Tire

Come May, many provinces across the country are going to make a return to semi-normalcy. There's no guarantee that Canadian consumers will return to the local Mark's or Sport Chek for the discretionary purchase that they've been putting off during the last few months of self-isolation and quarantine, though.

As long as the insidious coronavirus (COVID-19) is still out there, vulnerable retailers like Canadian Tire are still going to feel the effects, as most folks, I think, will opt to voluntarily stay at home when possible until the risk of contracting the deadly COVID-19 has been reduced further.

Canadian Tire: Too cheap to ignore

In due time, however, I suspect a gradual return from a state of lockdown to semi-normalcy to normalcy. That is, until the next coronavirus outbreak, which could strike in the latter part of this year. In any case, I view Canadian Tire as a robust retailer that's liquid enough to survive a potential worstcase scenario in the coronavirus pandemic. While Canadian Tire's e-commerce platform has been beefed up, the legendary company will always be a brick-and-mortar retailer at heart because of its extensive physical presence and the bulky nature of many of the goods the firm sells.

As such, Canadian Tire's medium-term fate will depend on news relating to the coronavirus. If it's good, and the economy can re-open without running the risk of suffering another outbreak, Canadian Tire could come surging back. But if things get uglier, expect Canadian Tire stock to continue to exhibit off-the-charts volatility.

Over the near term, Canadian Tire seems like a risky trade. If you're a long-term investor with a time horizon of at least five years, however, Canadian Tire is a deep-value play that could pay massive dividends, as the long-term fundamentals still appear to be intact.

At the time of writing, Canadian Tire stock trades at 1.57 times book and 0.44 times sales. The coming quarters are going to be hideous, but given the bar has already been lowered, I suspect nothing short of disastrous numbers are already baked into the share price here. The stock is currently down 46% from its all-time high and looks to have a relative margin of safety at under $100.

Foolish takeaway

If you're going to buy the battered retailer, brace yourself for excessive near-term volatility, because a collapse back to March lows could happen before a smooth-sailing recovery. As such, stash the name in your portfolio, collect the 4.7%-yielding dividend, and forget you own it for the duration of this pandemic.

Stay hungry. Stay Foolish.

CATEGORY

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

Date
2025/07/17
Date Created
2020/05/02
Author
joefrenette