At 50% Off, Canadian Tire (TSX:CTC.A) Stock Is Too Cheap to Ignore

Description

Canadian Tire (TSX:CTC.A) stock has blown a tire amid the coronavirus crisis, with shares nosediving 52% from the February peak to the March trough. With Canadian Tire stock's pre-pandemic pullback and April's big bounce factored in, the stock is down a grand total of 49% and looks to be a compelling rebound candidate, as Canada looks to re-open the doors on its economy this summer.

The stock may have imploded, but make no mistake, Canadian Tire isn't at risk of going under, like so many other big-box brick-and-mortar retailers out there. Despite past acquisitions, some of which I thought were a tad on the expensive side (like Helly Hansen), Canadian Tire remains well capitalized (with approximately $4.5 billion in liquidity) enough to weather the coronavirus typhoon.

Canadian Tire stock: Ugly earnings up ahead

With the curtain slated to be pulled on Canadian Tire's earnings results before the open on May 7, all eyes will be on the coronavirus-induced sales decline, and credit card provisions are also likely to be in the cards. As you may remember, short-sellers have targeted Canadian Tire not only for its noncompetitive retail business that's "fallen behind" the competitors, but its credit card business, which could be vulnerable to a Canadian bank-like magnitude of provisioning.

In a prior piece, I'd highlighted my distaste for Canadian Tire's credit card business, but after the stock got cut in half, I don't think material provisioning will be a needle mover to the downside. Like the Big Six Canadian banks, Canadian Tire has more than enough liquidity to deal with a weak quarter (or two) from its credit card business.

On the retail side, many investors are expecting the worst. With shares trading at 50% off their highs, I think better-than-feared retail results alongside optimistic management commentary could spark a big upward move that could be sustained until more negative news about the broader economy (or the coronavirus) is released.

There’s way too much negativity baked into Canadian Tire stock

For now, Canadian Tire’s big-league short-sellers are winning. But let’s not kid ourselves; there was a lot of luck involved, because nobody foresaw the coronavirus pandemic earlier last year. Regardless, I think Canadian Tire stock has reached a level that could give the shorts a bit of a squeeze, despite the hideous results that are coming.

While nobody knows how smooth the road to re-opening the economy is going to be, I believe that Canadian Tire has among the most room to run as the world inches closer to normalcy.

“While Canadian Tire does have an e-commerce platform, it’s the brick-and-mortar presence that gives the company a real edge over the competition,” I said in a prior piece. “Few of Canadian Tire’s competitors can say that they have a physical store in close proximity to the average Canadian. And once it’s safer to go outside again, Canadian Tire will regain its physical edge sooner rather than later.”

Foolish takeaway

At 1.4 times book and 0.4 times sales, Canadian Tire stock smells like a battered retailer with bankruptcy written all over it.

That’s simply not the case, as the company has the liquidity to make it through the pandemic and come out roaring, as the economy moves from lockdown to semi-normalcy over the coming months. The 5%-yielding dividend looks well-covered and safe, making Canadian Tire one of few battered plays that can allow one to lock in a big dividend alongside substantial capital gains.

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