Is Canadian Tire (TSX:CTC.A) the Perfect Retail Stock After Earnings?

Description

Online retail is becoming the go-to model for the country's consumer outlets. **Canadian Tire** (TSX:CTC.A) has seen sales tick up as people shop increasingly online for goods. Curbside pickup was an early innovation that married e-commerce with a physical distancing option. This "click and collect" hybrid retail system was already popular before the pandemic hit. It was especially so for Canadian Tire as it sells large items in-store.

Adaptability is key, and the e-commerce model offers a strong growth theme for investors as it becomes the default model of retailing. **Shopify**'s Q1 performance is illustrative of e-commerce growth, as this week's astounding earnings beat shows.

Meanwhile, Canadian Tire's comprehensive online presence is well-established, putting the diversified retailer ahead of the curve.

But this is just one reason why Canadian Tire really stands out as a long-term retail stock pick. Other reasons to buy this iconic name are less obvious. To understand them, we need to dig into the data.

Let's take a look at a few metrics that define a strong play in the retail space and see how Canadian Tire measures up.

An all-weather stock for the lockdown market

Return on equity can be used to gauge how well a business acts on opportunities. In this light, a projected three-year ROE of 17% shows Canadian Tire taking the initiative. While this may be a fairly low percentage, context is important here. The multi-line retail industry itself has a projected three-year ROE of 14.8%, demonstrating that Canadian Tire is likely to have the edge over its competition.

Canadian Tire delivers when it comes to passive income, too. Its dividend yield of 4.9% is significantly high, and comes close to satisfying a 5% portfolio goal. That dividend is backed up by steady 10-year growth with a low 34% payout ratio with room for hikes.

In terms of upside, Canadian Tire's current price of $93 has plenty of room to grow. A low estimate puts Canadian Tire's target at $174. A high target of $190 suggests a bullish upside thesis of more than double the current valuation.

The market ratios support the idea that Canadian Tire is decently valued. Both Canadian Tire's P/E of 7.4 and P/B of 1.2 hew closely to the multi-line retail averages.

Its Q1 results for the period ending March 28 showed reassuring 0.7% store sales growth. The next quarter may not be as strong, as March represented the height of households becoming "pandemic ready" and may not be replicable.

However, Canadian Tire has shown how quickly it can adapt to profound societal changes. For instance, e-commerce sales grew an impressive 44% in the most recent quarter.

The bottom line

Investors should look beyond Canadian Tire's slashed EPS and consider the long-term upside in this competitive name. Its highly diversified across home ware, sporting goods, auto parts, financing, and a REIT.

Canadian Tire also commands a wide moat in a highly competitive space, with around 1,750 stores across the country. It may not be a perfect stock, but it's certainly worth buying for the long term.

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