



3 Reasons Why Canadian Tire (TSX:CTC.A) Stock Could Explode Higher in 2020!

Description

Canadian Tire ([TSX:CTC.A](#)) stock is trading in deep value territory today. Despite being one of Canada's most iconic retailers, the stock has been hammered in 2020. Yet, for the most part, the company is in decent shape.

Could now be a good time to bet on this essential Canadian stock?

To answer this, let's look at its [recent Q1 results reported last Thursday](#). Despite negative pandemic impacts, Canadian Tire still grew comparable sales by 0.7% (versus 0.9% last year).

Fortunately, its Canadian Tire retail locations across Canada are considered essential and continue to remain open. Its SportChek, Marks, and Helly Hansen subsidiaries were not so fortunate, and are still mostly closed. As a result, overall revenues declined 1.6% compared to Q1, 2019.

For the quarter, adjusted earnings per share plunged to a loss of \$0.13 a share, compared to a profit of \$1.12 per share in 2019. Store closures, an increase in credit loan loss provisions, share compensation, and currency headwinds contributed to the overall loss.

While one can only guess that Q2 could be worse, Canadian Tire's outlook for the second half of the year actually looks pretty good.

Here are three reasons why the stock could shoot up from here.

Summer bodes well for Canadian Tire's stock

First, summer is coming and I think that bodes very well for Canadian Tire and all its subsidiaries. As virus restrictions are removed, Canadians will be looking to spend money closer to home: on house improvements, gardening, camping, and outdoor activities. Rather than travelling abroad, a trip to the lake or a local campground might be on the books instead.

Canadian Tire's businesses caters perfectly to the stay-local, stay-in-Canada, be outdoors economy. I

believe this could result in really strong results over the summer and into the fall.

Growth by e-commerce could see the stock get a re-rating

Second, the company has been investing in its mobile and online e-commerce platforms. In Q1, it addressed bandwidth/volume issues and is now working to implement an improved cloud-based platform by the end of 2020.

In Q1 alone, online order volume exploded 1,600%, and online sales across all segments increased 44%. As e-commerce opens up a new gateway for sales, Canadian Tire's stock could see a valuation re-rating like **Target** and **Walmart** have experienced.

Canadian Tire is already a trusted name in Canada. It should be able to capitalize on its established supply chain and store locations to amplify a [growing e-commerce](#) business.

Canadian Tire is a bargain stock

While Canadian Tire's stock has been nailed by short-sellers in the past, many of those positions have likely been removed. It is trading at a cheap nine times price-to-earnings ratio. Competitors like **Walmart**, **Loblaw**, and **Home Depot** are trading between 22 and 24 times price to earnings.

TD Securities Analyst Brian Morrison recently noted that if you remove the market value of Canadian Tire's stake in **CT REIT** and the financial services segment, the retail business is trading for a mere 1.6 times 2021 normalized earnings. That is insanely cheap, especially given that a large part of that retail business is still operating well!

In Q1, management further increased liquidity by securing a \$650 million credit facility (despite already sitting on \$650 million of cash/cash equivalents). As a result, management plans to maintain its 4.5% dividend. I think the dividend should remain safe as long as all segments can return to operation over the summer.

The Foolish bottom line

Canadian Tire is a great stock for investors looking for deep value, and an attractive yield. There are inherently some risks, particularly in its financial segment and retail subsidiaries.

However, the stock is so cheap right now that the upside far outweighs any downside, short-term risks. I think as summer warms up, this stock could heat up quickly as retail-shy investors finally remember the true value of this favourite Canadian company.

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Date

2025/08/21

Date Created

2020/05/12

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