Forget Canadian Tire: Buy its REIT

Description

No matter how you slice it, the pandemic has absolutely devastated a number of industries. Companies that we thought would be around forever are at risk of bankruptcy. Even those that may not go bankrupt will likely still need years to rebound. One company in that category is **Canadian Tire** (TSX:CTC.A).

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Canadian Tire stores closed shop during the pandemic, offering customers curb-side pick up rather than entering stores. Even with some relaxation of restrictions going forward, the company will have a lot to make up. Its main Canadian Tire store wasn't the only store to close. Its SportChek, Mark's, and Helly Hansen stores were all closed until this week. Needless to say, the first earnings report of 2020 wasn't positive.

Overall revenues declined by 1.6% compared to the same time last year, and adjusted earnings per share fell $0.13 per share, or a loss of $7.8 million compared to a profit of $1.12 per share in profit in Q1 2019. Unfortunately, the second quarter of this year will likely be even worse. As the restrictions relax, there should be an improvement over the summer. So, it's true that right now this stock is a bargain.

Canadian Tire stock has actually done quite well during this year and remains undervalued. There is potential upside of 35% as of writing. However, if the second quarter goes poorly, there could be another dip in this stock before a big rebound.

That's why I would recommend Canadian Tire's real estate investment trust instead.

Canadian Tire REIT

A great option to take advantage of the Canadian Tire brand without the sales risk is **Canadian Tire REIT** (TSX:CRT.UN). There is one obvious huge benefit to buying up this stock and that's because Canadian Tire's REIT owns all the storefronts. While it's possible that the company could close stores with serious losses, given the latest earnings report, this doesn't look likely.

That means Canadian Tire will still be collecting rents from these stores, and that will keep its cash flow steady. After all, it doesn't matter how many people are in the store; you still have to pay the same amount in rent. On top of that, most of the stores are leased under long-term contracts on an average of 10 years, some even decades. Of course, we likely won't see a lot of growth for the next year. With losses coming in, it's unlikely that the company will want to build new stores.

Even with some owners not being able to pay rent right away, Canadian Tire reported that it has the cash on hand to cover these short-term losses. The company has debt-to-gross book value of 42.7%, $315 million of undrawn credit facilities and cash, and fair value of $6 billion as of writing.

Bottom line

Canadian Tire's REIT has a much better long-term and short-term outcome for investors. The stock is still undervalued by 17% as of writing, but that's not he best part. The company also offers a whopping 6.14% dividend yield. And given the share price, you could buy 17 shares for the price of one Canadian Tire stock.

CATEGORY

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TICKERS GLOBAL

1. TSX:CRT.UN (CT Real Estate Investment Trust)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)

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