Canadian Tire (TSX:CTC.A) Stock Trades 35% Lower, Despite the Recent Rally

Description

Retail has been one of the worst-hit industries amid the pandemic. Canadian retail titan **Canadian Tire** (TSX:CTC.A) took a serious hit on its bottom line last quarter, driven by the lockdowns. However, the stock has been gradually but consistently moving up since then. What should investors do amid these volatile times?

Canadian Tire: Will the rally continue?

Steep growth in online sales and Canada reopening after a weeks-long lockdown should play well for Canadian Tire. Business activities could be slow initially, as fear would dominate customers. However, revenge shopping, the trend seen globally after lockdowns, would enable faster-than-expected growth for Canadian Tire.

Canadian Tire fell below $70 during the COVID-19 market crash in March. Since then, the stock has surged more than 65% and was trading at $117 at writing.

However, its current valuation indicates more room for growth ahead. Despite the recent rally, the stock is still trading 35% lower from its 52-week high. It is a lucrative opportunity for long-term investors to enter while the stock is still cheap.

Competitive advantage

Founded in 1922, Canadian Tire operates at over 1,746 locations in Canada and across the world. Its rich presence in the country, diversified product range, and unique brand give it a competitive advantage over peers.

During the first quarter, Canadian Tire's online sales zoomed 80%, which were partially compensated for lower footfall amid the lockdown. This highlights the brand loyalty of customers for Canadian Tire.

Canadian Tire's large scale with brick-and-mortar stores and its growing digital presence make it stand tall in the retail space. Also, the advent of its e-commerce segment could bode very well for its future earnings growth.

In 2019, the retail giant reported an $807 million net income, which was 4% higher than in 2018. In the first quarter, its revenues fell marginally due to the pandemic, which translated to a loss. Despite its dismal performance in Q1, I think the weakness will remain only for a couple of quarters. On the liquidity front, Canadian Tire looks well placed to weather the crisis.

Canadian Tire has been a solid wealth creator for its shareholders for the last several years. Since the 2008 financial crisis, it has returned almost 250%, including dividends. In the same period, the **TSX Composite Index** has returned 90%.

Attractive dividends and valuation

CTC offers a juicy dividend yield of 4%, higher than many TSX stocks. It has been paying dividends for the last 21 consecutive years. Notably, it has managed to increase dividends by more than 13% compounded annually in this period.

Also, the lower payout ratio indicates that there is a big scope for a dividend increase, and it can sustain payouts, even if earnings take a hit due to bad times. All in all, its attractive dividend profile makes it a solid bet in terms of total returns for long-term investors.

As stated earlier, Canadian Tire stock looks attractive from the valuation perspective. It is trading at a forward price-to-earnings multiple of 13 times. That's cheaper against its historical average valuation. The discounted valuation indicates that the stock could continue to march higher. With solid capital gain prospects and a stable dividend profile, Canadian Tire is an attractive proposition for long-term investors.

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