Market Rally 2020: Canadian Tire Stock Gains 85% Since March on Investor Optimism

Description

Shares of **Canadian Tire** (TSX:CTC.A) have recovered considerably since it bottomed out in March 2020. Canadian Tire stock is currently trading at $123.85, which is 85% higher than its 52-week low of $67.15. However, investors should not that it's still trading 21% below 52-week high of $157.36. This means Canadian Tire investors lost 58% in the coronavirus-led bear market.

The Canada-based retail company is a household name and operates in the automotive, hardware, and houseware space. Canadian Tire business includes a retail segment and a REIT vertical as well. The company ended 2019 with 1,746 retail and gasoline outlets, up from 1,702 in 2017. The retail giant also has multiple brands such as Sport Check, Mark's, and Helly Hansen under its banner.

Driven by the increase in store count, Canadian Tire has managed to increase stores and retail sales from $12.1 billion in 2017 to $13.2 billion in 2019. Overall sales rose from $13.27 billion to $14.53 billion in this period.

In the first quarter of 2020, despite countrywide shutdowns, Canadian Tire's total sales were down just 1.6% year over year. Comparatively, its earnings per share fell to -$0.22 in Q1 from $1.12 in the prior-year period.

The shift to e-commerce should benefit Canadian Tire

While the retail sector has been hit hard in the first half of 2020, a few of them have looked to the e-commerce segment to offset this decline. In Q1, Canadian Tire's e-commerce sales grew 44% year over year primarily due to 80% growth in CTR (Canadian Tire retail). It implemented curbside pickup across all stores in the country.

The CTR website processes close to 80,000 orders daily compared to the pre-pandemic figure of 5,000. Though the COVID-19 is likely to be a near-term headwind, the shift to e-commerce has accelerated and should drive the company top line in the upcoming decade.

Focus on a healthy balance sheet

Canadian Tire management stated the company has a strong balance sheet and is well capitalized. At the end of Q1, it had $1.5 billion in liquidity in its retail segment. This number stood at $300 million for **CT REIT** and $2.25 billion for Financial Services.

Canadian Tire also entered into a one-year bank credit facility for $650 million with four financial institutions. The company's CFO Gregory Craig stated, "We continue to manage our cash prudently by managing our working capital, and have taken steps to reduce discretionary costs at home office and our corporate stores."

Canadian Tire is also looking to improve operational efficiency to cut costs in a volatile environment. Canadian Tire management remains committed to achieving an annualized cost savings target of $200 million by the end of 2022. Further, it's strengthening the digital platform to improve user engagement and drive online sales higher in the upcoming quarters.

Canadian Tire announced a quarterly dividend of $1.1375 per share, indicating a forward yield of 3.7%. This means a $5,000 investment in this stock will generate approximately $185 in annual dividends.

Canadian Tire stock has recovered at a record pace in the last two-and-a-half months. Its strategy to push online sales higher coupled with cost reduction will help the company through an uncertain macro environment.

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