



## BUY ALERT: Canadian Tire (TSX:CTC.A) Stock Just Popped 70%

### Description

**Canadian Tire** ([TSX:CTC.A](#)) stock is ripping higher. Since bottoming in March, shares have risen by 70%. Last week alone saw a 6% rise.

This is a startling outcome for many investors. Millions of Canadians are still out of work. The [oil](#) bear market rages on. Governments are still scrambling to contain the COVID-19 crisis, with a resurgence expected due to reopening efforts.

How can a brick-and-mortar retail skyrocket in value in this [environment](#)?

### Here's the data

Last month, Canadian Tire reported first-quarter earnings. Executives repeated several times that the company is "well-positioned to compete for the long term." What exactly does that mean?

Despite COVID-19 impacts on consumer spending, Canadian Tire Retail posted 0.7% same-store sales growth versus the year before. This marked 24 consecutive quarters of positive growth. Before the pandemic hit, sales were tracking at 1.3% year-over-year growth. So, the crisis lowered prospects, but growth remains positive.

The biggest problems occurred in stores *not* named Canadian Tire, namely SportChek, Mark's, and Helly Hansen, which the company also owns. The temporary closure of these locations forced EPS down to -\$0.22 compared to \$1.12 in the prior year.

In total, the core business remains strong. The pain has largely stemmed from complete store closures, not necessarily a decrease in foot traffic, although the two are closely related.

The final item to note is financial stability. Last quarter, the company took aggressive action to ensure a strong cash position and financial flexibility. Management paused share repurchases, secured an additional \$650 million credit facility, and deferred a large chunk of 2020 capital expenditures.

A stable core business and shored-up financial position will allow the retail giant to ride out the COVID-19 storm with relative ease. And as we'll see, the company could thrive, even if conditions don't normalize for years.

## Should you buy Canadian Tire stock?

The rise in CTC stock largely stemmed from a reset in expectations. At the nadir of the crisis, few were confident that *any* brick-and-mortar business would survive. Today, it's clear that the retailer will survive. That shift alone sparked a large uptick in the valuation multiple.

The rest of the surge was a recognition that Canadian Tire may manage the shift-to-digital with ease. E-commerce sales grew 44% last quarter, driven by an 80% rise at Canadian Tire Retail. Daily average order volumes grew from 5,000 at the start of the year to over 80,000 by April. Much of this spike was driven by implementing curbside pick-up nationally in all retail locations.

"To date we have seen a quantum leap in our eCommerce performance across all of our banners and we have accelerated our planned investments in our digital capabilities to meet our customers' increased desire to shop online," stressed Greg Hicks, president and CEO. "I am very encouraged by early results in the second quarter, and I am confident that we will continue to successfully operate in this new normal and excel over the long-term."

The core business has proven surprisingly resilient, partially thanks to a strong and skillful expansion in digital sales. But do these factors make CTC stock a buy?

This year, analysts expect the company to generate US\$10.2 billion in sales. Next year, sales are expected to approach \$11 billion. That's impressive growth, even with COVID-19 headwinds now baked in, but you'll pay for it. The stock's 1.5 EV-to-sales ratio now runs at a *premium* to the five-year average of 1.3 times.

Canadian Tire still looks like a fine long-term bet, but the biggest upside has already been realized.

### CATEGORY

1. Coronavirus
2. Investing

### TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

### PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

**Category**

1. Coronavirus
2. Investing

**Date**

2025/08/25

**Date Created**

2020/06/08

**Author**

rvanzo

default watermark

default watermark