Canadian Tire (TSX:CTC.A): Next Stop $180 or $80?

Description

Canadian Tire (TSX:CTC.A) stock has been a major mover of late, with shares of the iconic retailer surging over 50% off its March bottoms. While there's no question that the coronavirus-driven decline was overextended given Canadian Tire's terrific liquidity position, which was more than enough for it to survive the crisis on its own, there are still significant question marks with the near- to medium-term fate of the firm as well as wrinkles that have yet to be ironed out by management.

Canadian Tire has done a good job of rolling with the punches amid the coronavirus crisis

With many brick-and-mortar retailers in survival mode amid the coronavirus crisis, it can pay dividends to pay special attention to the balance sheet and how a firm's operating cash flow stream stands to be affected in a worst-case scenario with this pandemic. In prior pieces, I've pounded the table on Canadian Tire stock ad nauseam, touting the firm for its stellar liquidity position and progress made on the e-commerce front.

I also thought that the stock was too cheap given the economy was on the cusp of reopening and that the firm would likely "witness some pent up demand for many big-ticket discretionary items that wouldn't have made sense to purchase online."

The company's close physical proximity was a huge advantage when it came to those "see-in-person-before-you-buy" types of items, and with store traffic looking to inch closer to those pre-pandemic levels, there's no question that Canadian Tire stock is starting to see the weight that's being lifted off its shoulders gradually.

Canadian Tire: There are still major headwinds that may not justify today's lofty price tag

The stock is back on track, and Canadian Tire's credit card business wasn't as horrendous as short-sellers made it seem last year. With sales overdue for relief amid store reopenings, Canadian Tire seems like a no-brainer buy. But after such a tremendous run, CTC.A stock isn't the same "steal" that it used to be. And with economic reopening catalysts all but baked into the share price, I'd be more inclined to sell Canadian Tire than scoop up more shares on its way up.

The stock sports a 1.8 times book multiple, which, while not ridiculously expensive, may not be as an extraordinary deal given the slate of risks investors will have to bear with the name.

Canadian Tire still isn't out of the woods yet with the coronavirus. And many of the sore spots that short-sellers previously shed light on (most notably the firm's "uncompetitive" e-commerce platform) are still something to be concerned about. The company faces fierce competitive pressure from both the physical and digital realms. Even with the pandemic taken out of the equation, I'd say that Canadian Tire stock deserves to trade at a slight discount to its peer group.

Foolish takeaway

In the meantime, a potential rollback of reopenings remains a real risk for Canadian Tire, which is a brick-and-mortar retailer at heart. While there's no telling whether we're in for another round of lockdowns, I think CTC.A is at risk of falling back to $80 if a second wave of coronavirus infections were to hit the country.

As for those $180 pre-pandemic heights, I don't think they're within reach right now. The company-specific issues and uncertainties relating to the coronavirus are just too great. As such, I'd look to trim at the stock at north of $120 before it has a chance to suffer a reversal of momentum.

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