



## Canadian Tire (TSX:CTC.A) Stock Just Went on Sale

### Description

**Canadian Tire** ([TSX:CTC.A](#)) stock has come a long way since those March lows. However, there's still considerable upside to be had from the dirt-cheap discretionary retailer as it gradually regains its most significant competitive edge: its close physical proximity to Canadians.

### Don't discount Canadian Tire's physical advantage

In an era where e-commerce reigns supreme, you may think that Canadian Tire's physical edge is less meaningful, if not meaningless.

Sure, the trend in retail continues to transition towards digital, and it's been accelerated by the coronavirus pandemic. But given the large nature of many of the goods that Canadian Tire sells and the fact that its flagship stores tend to have massive aisles, the retailer is in a spot to see its sales numbers pop, as brick-and-mortar sales recovery abruptly in a semi-return to normalcy in the reopening of the Canadian economy.

### A solid first quarter for Canadian Tire in the record books

Canadian Tire's first-quarter numbers demonstrated that the retailer is far more resilient than most bears (and shorts) may have thought initially. In early May, Canadian Tire beat the street consensus, clocking in an EPS loss of \$0.13, which was better than the expectation of a steeper loss of \$0.21.

As expected, the e-commerce platform did more of the heavy-lifting through the seasonally-weak quarter that also happened to include some of the worst weeks of coronavirus-induced shutdowns. If you're in the belief that the worst of the pandemic is already behind us, then the first quarter was just about as bad as things can realistically get for the ailing retailer.

The Canadian Tire Financial Services business, a significant selling point of short-sellers last year, held up reasonably well. And with a retail business that's poised for a big comeback in the second half, I'd say that current valuations don't account for positive trends in retail that we've been witnessing of

late.

Due to the shutdowns, primarily mall-based chains such as Marks and Sport Chek suffered steep year-over-year revenue declines of -13.5% and -12.1%, respectively, while Canadian Tire Retail enjoyed a 4% boost thanks in part to its robust online platform.

Once it becomes safer to head to the malls again, I'd look for all segments to come roaring back, providing a boon for the stock at a time of considerable uncertainty.

## A depressed valuation and a well-covered dividend

Canadian Tire has the liquidity in place to [roll with the punches](#) should reopening rollbacks hit, and non-essential retailers are shuttered again. While I don't think such a bear-case scenario will happen in Canada again, resilience in the first quarter demonstrates the retailer's underestimated resilience. Shares of CTC.A still have a heck of a lot more room to run as we inch closer to normalcy over the coming weeks and months.

The stock had an epic relief rally, but after the latest breather, CTC.A shares still look heavily discounted at 0.5 times sales and a mere 1.7 times book. Canadian Tire stock sports a 3.9% dividend yield, with a payout isn't going anywhere, even if a bear-case scenario pans out and we're thrown into a second wave of government-mandated business shutdowns.

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

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