Canadian Tire (TSX:CTC.A) Could Have Way More Room to Run!

Description

Many investors hit the panic button when it came to **Canadian Tire** (TSX:CTC.A) stock back in February and March. In the heat of the COVID-19 sell-off, it seemed as though the sky was falling. The markets looked dysfunctional, there was a cash crunch, and many were fearful that we were headed for an economic depression that would rival that of the Great Depression.

Brick-and-mortar retailers such as Canadian Tire were essentially sitting at ground zero of the crisis. Government-mandated shutdowns took a toll on Canadian Tire's numbers while its e-commerce platform, which was slammed by short-sellers in 2019, were put in a spot to do a majority of the heavy lifting.

Add other short-seller allegations into the equation (they saw Canadian Tire's credit card business as a major sore spot) and you've got the perfect recipe for an exaggerated pullback.

Canadian Tire soars

Canadian Tire shares imploded on themselves before roaring back over 66% in a matter of months. If you were somehow able to hold your nose and buy the stock while investors ran for the hills, you made a swift profit.

Today, Canadian Tire shares aren't nearly the steal they were just a few months ago, but they're still an excellent value for those looking to get a piece of the Canadian icon at a reasonable price.

The stock sports a 3.7% dividend yield at the time of writing, which is well covered and is likely to grow further, as the shareholder-friendly management team has more than enough liquidity to survive a bear-case scenario with this pandemic.

Moreover, given the latest round of improvements made to the company's e-commerce platform, there are reasons to believe that the shorts were wrong and that Canadian Tire can be competitive in the new age of retail.

The bumpy road ahead

Over time, I see Canadian Tire making its way back to the top. This COVID-19 crisis is just a massive bump in the road that may prove to be nothing more than a buying opportunity for value-conscious income investors who aren't afraid of going against the grain and formulating an investment thesis that holds up better than the bear theses of the shorts.

While Canadian Tire has seen pressure in its recent coronavirus-plagued quarter, it wasn't nearly as bad as what most expected. The financial services business didn't implode on itself, and the retail business demonstrated some resilience thanks in part to upped adoption of the e-commerce platform (which I think still has room for further improvement).

As the Canadian economy looks to recover in a similar shape as the **TSX Index** (a near-V-shape), I'm a huge fan of Canadian Tire at these valuations. The company has a stellar liquidity position (1.65 current ratio) to stay afloat amid the crisis, a more resilient operation that most initially thought, and an omnichannel presence that looks to be improving with every investment that management makes.

Canadian Tire: What about valuation?

The stock trades at 8.3 times EV/EBITDA and 1.8 times book value, both of which are slightly below that of the stock's five-year historical average multiples of 8.9 and 2.12, respectively.

A modest 10-15% discount on shares relative to historical averages and a demonstration of resilience in the face of this pandemic? Sounds like a great deal for income-oriented investors seeking value amid the chaos.

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