Canadian Tire (TSX:CTC.A): Is the Stock a Buy After its Massive Rally?

Description

Shares of retail giant **Canadian Tire** (TSX:CTC.A) are trading at $128.5 per share, which is 91% above its 52-week low. The stock fell to a multi-year low of $67.2 when markets bottomed out in March 2020. However, it has since made a strong comeback and is currently trading just 18% below its 52-week high.

So, has the market rally for Canadian Tire stock ended, or will it continue to surge higher despite macro-economic uncertainty?

A domestic heavyweight

Canadian Tire, like most other retailers, has been impacted by countrywide lockdowns. The COVID-19 pandemic led to store closures, and the traditional retail segment was one of the worst-hit in recent times. Canadian Tire has three primary businesses that include retail, financial services, and real estate.

The retail segment provides products across verticals such as automotive and gardening. This also includes brands such as Mark's, which specializes in casual and industrial wear, Pro Hockey Life, a hockey specialty store, and activewear brands such as Sports Check, Atmosphere, Intersport, National Sports, and others.

Canadian Tire ended 2019 with 1,746 retail and gasoline outlets and $14.5 billion in total revenue. The company's focus on store expansion has also driven net income higher from $818.8 million in 2017 to $923.3 million in 2019.

Further, Canadian Tire also surprised investors and analysts with stellar Q1 results; sales rose 0.7% on a comparable store basis, the company's 24th consecutive quarter of positive sales growth.

Analysts have forecast Canadian Tire sales to fall by 20% to $2.95 billion in the second quarter. Comparatively, the company is expected to report a net loss of $0.1 per share, significantly lower than its net earnings of $2.97 per share in Q2 of 2019.

Canadian Tire is expected to experience a revenue decline of 4.2% in 2020, while earnings are estimated to fall by a significant 40%. If the company fails to meet analyst estimates in the upcoming quarter, investors can expect the stock to correct from current prices.

What's next for Canadian Tire investors?

Canadian Tire has improved liquidity to tide it through the ongoing crisis. It secured $650 million in credit facility from four Canadian institutions in addition to the existing available funding channels. It also deferred certain capital-expenditure plans for 2020 and suspended share repurchases.

While retail store sales are expected to plummet for Canadian Tire, this will be offset by online sales. In the first quarter, Canadian Tire's e-commerce sales were up 44% year over year, and this figure should accelerate in the upcoming quarters.

Despite the impressive rally since March 2020, Canadian Tire stock continues to trade at an attractive valuation. It's price-to-sales ratio stands at 0.6 while the price-to-book multiple is less than two.

Despite a 40% decline in earnings, Canadian Tire is expected to increase its bottom line at an annual rate of 8.9% in the next five years. This shows Canadian Tire stock has upside potential given its price to 2021 earnings multiple of 10.4.

Canadian Tire is a huge domestic brand and continues to benefit from its close proximity to the Canadian populace. While there may be some short-term volatility, CTC stock remains a top pick for the upcoming decade.

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