Buy This 1 Great TSX Stock for Recovery Upside

Description

Earnings season was a mixed one for the TSX, but at least investors can now begin to survey the damage. But before one looks into the different business strengths/weaknesses of Canada's biggest names, it's important to look at competition. One way that the big three telcom businesses take some of the heat off direct competition, for instance, is through clearly defined territorial markets.

To some extent, banks operate similarly in this country. Think of **Laurentian Bank** or **Bank of Montreal**, for instance. Other sectors, especially retail, don't benefit from this kind of geographical moat, however. Consider such highly competitive names as **Roots** or **Canada Goose**. These name are homogenized across provinces. But the pandemic has pushed many retailers almost exclusively online, making branding and market share even more important.

Retail stocks are a mixed bag

This kind of increased market homogenization has helped some retail names and hindered others. For instance, many retailers experienced an uptick in online sales during the first months of the pandemic. Roots saw first-quarter online sales up by 200% year on year for the period that its stores were shuttered. But despite this growth, total Q1 sales were down 44.9%.

This doesn't mean that a recovery won't be forthcoming. People are already packing out restaurants again. Travel and tourism will spring back. Sports are resuming. But the amount of money that people have to spend — and, importantly, the way that they spend it — may have been altered for a generation. With high household debt and savings eaten into, a recovery in consumer demand will likely come in fits and starts.

For some retail companies, therefore, e-commerce growth is a smokescreen in 2020. Investors instead need to look at total sales and gauge how a company's bottom line, balance sheet, and outlook tie in with a slow recovery. Luckily for investors, there is at least one retail corporation that can offer an example.

Mid-pandemic economic recovery in action

Canadian Tire (TSX:CTC.A) is a solid example of how a hybrid of e-commerce and physical stores can work. This model was already in place before the pandemic. Indeed, as a retailer of some large goods that have to be collected, a high street presence is essential for Canadian Tire. But the lockdown caused a shift towards online shopping initiatives. Its Q1 was surprisingly reassuring given the market.

Its recently reported Q2 performance follows in this pattern of adaptability — and then some. The corporation saw e-commerce sales growth of 400%. This was driven by 500% such growth under the Canadian Tire Retail (CTR) banner. Investors can also track sales growth for CTR across the pandemic. This went from a drop of 1.8% in April, encouraging 25% growth in May, and even higher 38% growth in June.

A lower 3.6% dividend yield reflects the share price growth the Canadian Tire has enjoyed in the last three months but strengthens a buy thesis nonetheless. Up 18.6%, Canadian Tire has managed to attract investors and provide strong returns during the public health crisis. With retail revenue down 15.2%, there's a long way to go, but Canadian Tire is bouncing back.

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