Forget Meme Stocks: 1 Canadian Retail Stock With Long-Term Upside

Description

As of late, meme stocks such as **GameStop** have been creating a lot of buzz. Many investors are wondering whether getting on trades like these makes any sense. However, I'm generally bearish on the long-term outlook of such speculative plays.

In my view, there are plenty of other high-quality retailers out there to consider. And in Canada, one of the best has to be **Canadian Tire** (TSX:CTC.A). Here's why I think retail-focused investors should spend more time on Canadian Tire than GameStop right now.

Recent earnings have been top notch

The Toronto-based company is renowned for selling sports equipment, footwear, automotive parts and more in more than 1,700 locations across Canada. Canadian Tire delivered very strong performance this past quarter, which the chief executive officer of the company, Greg Hicks, referred to as "ground breaking."

Despite the headwinds caused by the pandemic, Canadian Tire's same-store sales increased by 13% in the last quarter. Moreover, this company's seasonal Christmas sales represented year-over-year growth of more than 40%. Indeed, these are exceptional figures taking into account how the current situation has impacted retailers. That said, the real driver of these results is Canadian Tire's stellar e-commerce growth rate. Indeed, year-over-year e-commerce sales grew at a whopping 179% for the Canadian retailer.

Total revenue in the fourth quarter jumped to nearly $5 billion, leading to an adjusted profit of a solid $8.40 per share. Furthermore, this company's financial results throughout 2020 were equally impressive. Total revenue of nearly $15 billion in a pandemic year far exceeds what most analysts would have predicted a year ago. Yet here we stand.

Canadian Tire has excellent fundamentals

This company has a dividend yield of 2.5%, which is quite modest. Nevertheless, this yield has continued to grow over time.

How?

Well, the company has an incredible free cash flow yield of 17%. Canadian Tire has managed to grow its cash flow to $1.9 billion. This represents an increase of 517% on a TTM year-over-year basis. According to reports, sales per share of Canadian Tire jumped up 53%, which surpassed analysts' expectations of 44%.

Moreover, as per projections, Canadian Tire's earnings are estimated to grow by 14% to $15.72 in 2022, which makes its forward valuation multiple a very reasonable 12-times its earnings. In the last three months, analysts' estimates for the next year were up by 2%. Canadian Tire's trailing return on earnings is 20.3% at the time of writing. The consensus target as per eight analysts is $199, which represents a potential upside of 11%.

Bottom line

The picture for Canadian Tire right now looks a heck of a lot better than that of GameStop. One company is in transition toward becoming an e-commerce-oriented retailer, and the other has already made the shift in a big way. In my view, there's no comparison between the two companies.

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