



This Iconic Canadian Stock Is in the Middle of an Unstoppable Rally

Description

Canadian Tire ([TSX:CTC.A](#)) is an iconic Canadian stock that investors should always be looking to buy any time shares head south in a hurry. Of late, though, the name finds itself in the midst of an unstoppable rally, which has been going strong since those March 2020 lows.

The brick-and-mortar retailer's digital strength kept it going strong, even through the worst of last year's COVID lockdowns. While Canadian Tire will always be a brick-and-mortar retailer at heart, given its deep penetration across the nation and its close proximity to the average Canadian, its newfound strength in e-commerce puts Canadian Tire right up there with the omnichannel retail greats. And as we exit this horrific pandemic to a booming "Roaring '20s" type of economy, the demand for discretionary goods is likely to continue to remain robust, and Canadian Tire will be there to meet the demand — offline or online.

Canadian Tire is a resilient retailer that refuses to be kept down

Canadian Tire has some pretty incredible managers running the show. The company has focused on developing and acquiring exclusive brands to build a [moat](#) around its retail business — something that's pretty hard to do in the era of e-commerce disruptors like **Amazon.com** and the like.

After having demonstrated its resilience last year, investors should give the company the respect it deserves. It's not just another sitting duck that's waiting around to be shot down by Amazon. It's a retailer that's drawing on its strengths, and I think Canadian Tire's recent momentum will continue well into the post-COVID environment, as it continues to [strengthen](#) its online offering and its Triangle loyalty program.

As the economy gradually reopens and lockdowns are lifted, Canadian Tire's mall-based stores, most notably Mark's and Sport Chek, will really have a chance to make up for lost time. Sure, people can order their shoes, workwear, and hiking gear online. Still, with team sports shuttered to curb the spread of the insidious coronavirus, I think that the post-COVID world will allow Canadian Tire's non-namesake brands to finally meet what could be tremendous pent-up demand, as people take up sports

once it's completely safe to do so.

What about valuation in the iconic Canadian stock?

There are great tailwinds up ahead for Canadian Tire. Malls reopenings, the return of team sports, and recovering employment all bode well for the discretionary retailer. That said, the stock is white hot right now, after surging over 155% from its March 2020 peak to where the stock currently sits today.

The stock trades at 13.9 times trailing earnings alongside a far less bountiful 2.2% dividend yield. While I think the road up ahead is smoother, I can't say I'm very enticed by the premium valuation, which is heavily skewed towards the higher end of the historical range.

At 0.8 times sales, 2.7 times book and 7.4 times cash flow, shares of Canadian Tire are pretty much trading in line with most other retail department stores. As such, I'd say Canadian Tire is fairly valued at best right here and would encourage investors to wait for a pullback before initiating a position in a name that's way too hot for my liking at current levels.

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