A Cheap Canadian Icon That’s Hiding in Plain Sight

Description

It’s been a turbulent October for broader markets, and the turbulence could very well continue for another quarter or two. Even if you expect the worst to come, though, I wouldn’t sleep on the bargains that pass you by today. The markets aren’t down by that much. A 3-4% decline from the peak is hardly a sale to go bargain hunting. Still, it’s remarkable that many of the quality names under the hood of the TSX have already fallen by much more. They may very well be a leading indicator of where broader indices are headed next. And if that’s the case, a majority of the damage may already be in at this juncture, even if we’re poised for a 10% peak-to-trough drop in the TSX.

Indeed, many stocks in your portfolio have likely fallen considerably, and it may come as a surprise to see broader markets down by so little. Unless you’re heavy in energy stocks, which have been soaring of late on the back of rallying oil prices, odds are you’ve been trailing the market in the second half of 2021 thus far. Don’t be alarmed. And don’t feel the need to chase some of the hot energy stocks that have already posted substantial upside moves over the past several weeks and months.

Seek cheap Canadian stocks in a temporary rut

Instead, focus on quality companies whose stocks, not businesses, are in a serious rut — preferably, a rut that’s much larger than 3-4%. Think **Canadian Tire** (TSX:CTC.A), one of the best cheap dividend stocks that may be flashing red on your bargain radar these days.

Even if the TSX is due for a 10-15% drop, perhaps on a blow-off top in WTI (West Texas Intermediate) prices, Canadian Tire stock is not guaranteed to fall further, even if the broader TSX Index ends up crumbling like a paper bag over the coming months.

With a stellar valuation and a quality, growing dividend, I believe shares of CTC.A are worth picking up right here, even if strategists double down on calls for a correction, market crash, or bear market. The damage, I think, has mostly already been baked into a retailer that has already proven it deserves a more premium multiple.

Canadian Tire stock: Iconic retailer falls into single-digit P/E territory

Canadian Tire impressed last year when it posted much better-than-expected numbers amid COVID shutdowns. Indeed, the strong balance sheet and higher demand for discretionary goods helped propel CTC.A stock back to a new high in no time. The e-commerce business, often underestimated by many, also shined, as brick-and-mortar stores were forced to shutter or operate with restrictions in place. Undoubtedly, consumers love the timeless Canadian retailer.

As the economy reopens, Canadian Tire will regain its physical edge again. That means Sport Chek and Mark's will be able to shine alongside Canadian Tire's flagship store. For now, though, investors can expect continued resilience as we look to exit this pandemic. With shares down 16% from their peak, I view the name as a huge bargain. The stock boasts a ridiculous 9.4 times trailing earnings multiple, which is more indicative of a value trap than a quality retailer with a solid long-term growth strategy and a knack for beating the odds.

CATEGORY

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