TFSA Investors: Buy Canadian Tire Stock for the Value. Stay for the Dividend

Description

Canadian Tire (TSX:CTC.A) is a Canadian staple that continues to do well. Even during the pandemic, the company narrowed its focus on e-commerce and created a thriving new revenue stream. What of supply-chain demands? The company has tonnes of storage to ensure it never runs out of products. Canadian Tire stock is therefore a proven performer.

And yet, the company remains well in value territory trading at 10.46 times earnings. That makes it the perfect time to pick it up for your Tax-Free Savings Account (TFSA). Let's look at why, and what TFSA investors can get out of Canadian Tire stock.

Earnings on earnings

Not only did Canadian Tire stock recently report strong earnings but *record* earnings for the fourth quarter and full year. Its diluted earnings per share (EPS) for the quarter was up 5% to $8.34; for the full year, it was up almost 50% to $18.38.

Sales grew 11% in the quarter and 8% for the full year, which Canadian Tire stock management commends to its omni-channel capabilities. Those sales didn't even include the incredible growth in e-commerce. Furthermore, the company brought on 2.4 million new Triangle Rewards members in 2021. This now brings the total to 11 million users to the program — almost a third of the Canadian population — and 2.2 million active credit card holders.

What's in store?

Perhaps the most exciting update lately from Canadian Tire stock was the $3.4 billion investment announced last month. The investment will occur over the next four years to grow its omnichannel experience further. By 2025, Canadian Tire stock expects to reach 4% growth in annual sales, excluding petroleum. It looks to achieve retail return on invested capital of over 15% and diluted EPS of over $26.

To achieve this, the company is looking to expand its owned brands portfolio, which now includes Marks and SportsChek among others. It also looks to expand its Triangle Rewards program and “transform” its online experience through the rollout of one digital platform. Then, to address potential supply-chain issues, it will invest in more warehouse space and enhanced order fulfillment. Further investments will go to modernizing tech infrastructure for more efficiencies.

Why now?

That’s a lot to look forward to, but why should TFSA investors buy Canadian Tire stock now? The answer, of course, is in the title. The company trades at 10.46 times earnings, as I mentioned. It also offers a strong dividend yield of 2.58%, or $4.95 per share per year.

Let’s then look at share performance over the last while. Year to date, shares are up 6%, and down 4% over the last year. However, over the last five years, shares are up a solid 15%, getting it out of pandemic territory. Add in the value seen now, a target price of $233, which gives it a potential upside of 18%, and that dividend, and you’ve got a winner to buy today.

Foolish takeaway

Canadian Tire stock has proven its worth once again during the pandemic. Management continues to make solid investments, showing you should never count out the iconic Canadian retailer. Putting $10,000 towards the stock today would bring in about $250 as of writing per year in dividends. That’s without accounting for share growth. But looking at how the company should perform through to 2025, those returns look all but guaranteed.

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