Canadian Tire Stock: Is it a Good Buy Now?

Description

Canadian Tire (TSX:CTC.A) has a long history of operation. Its roots go as far back as almost a century! Stephen Takacsy recently added to his position in the large-cap growth stock.

> "We just added this. It's a cheap large cap. Canadian Tire sold a lot of outdoor furniture, which was a pandemic bump. It did a great job with supply chain management. Its loyalty program gets cross-selling among its businesses, which is very good. It is very shareholder-friendly by raising the dividend. Its same-store sales growth may be less strong vs. last year, but this is priced into the stock."
> *Stephen Takacsy, president, CEO, and chief investment officer of Lester Asset Management*

Canadian Tire already generates a decent percentage (about 11%) of sales through e-commerce. In March, it announced that it will be investing $3.4 billion over the next four years to bolster its omnichannel capabilities and drive long-term growth.

> "Over the past two years, we have further strengthened our highly competitive, powerful market positioning and unrivaled understanding of the Canadian consumer. We are making strategic investments that will create better customer experiences, [and] deeper customer connections… Through our strategy, we will continue to evolve from a collection of banners, brands and channels into one integrated company — one in which all our assets render each other more valuable to create a truly differentiated customer experience."
> *Greg Hicks, president & chief executive officer, Canadian Tire Corporation*

Canadian Tire stock is growing in the long term

Specifically, Canadian Tire's long-term goals by 2025 are to increase sales (excluding petroleum) at a compound annual growth rate of more than 4% per year, earn a return on invested capital (ROIC) of more than 15% (vs. 2021's 13.6%) and double its diluted earnings per share (EPS) to about $26 (vs.

2019's $12.58).

Hicks reassured that

> "We have clearly laid out our strategic growth plan, and we firmly believe that investments targeting organic growth in the right places represent the best use of capital… Our focus on investing in the business will be coupled with our balanced approach to dividends and share buybacks which positions us to continue to generate attractive returns to shareholders over the longer term."

Strong profitability and growing dividend

In the long run, Canadian Tire has reported highly stable earnings. It operates under an umbrella of banners including Canadian Tire, SportChek, Mark's, Party City, etc., which are in different niches. Additionally, it tends to buy back its common stock, thereby, reducing its outstanding shares and increasing the business stake of existing shareholders. So, even during the pandemic, its diluted EPS only dipped 2%.

Since 2007, Canadian Tire stock has grown its diluted EPS at about 9.5% per year, which is a high single-digit rate. In the same period, it increased its dividend by about 14.3% per year. Consequently, I don't think anyone would argue that it is a high-growth, large-cap dividend stock. Its payout ratio is estimated to be just under 30% of its adjusted EPS this year.

The solid dividend stock yields 2.7% and trades at about 10.3 times this year's earnings. Therefore, it's undervalued by about 20% and is a decent buy for conservative long-term investors. Barring a market crash, it can deliver total returns of more or less 12-15% per year over the next five years.

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