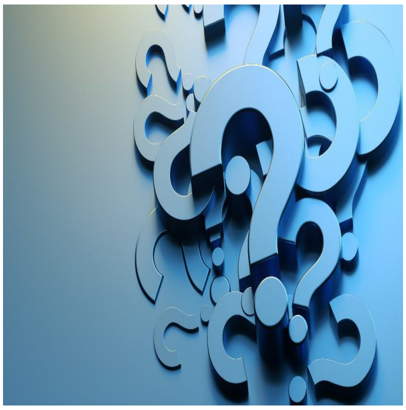

Canadian Tire Stock: Is the Risk Already Priced In?

Description

Canadian Tire (TSX:CTC.A) is an incredible company and one of Canada's best-known brands. However, in recent years, Canadian Tire stock has adopted a new strategy that's helping it to grow even more rapidly and consistently.

Canadian Tire's strategy goes well beyond just owning Canadian Tire stores. With banners like Mark's, Party City and Sportchek, it's expanded its footprint and market share considerably.

That's not all, though. The long-term growth stock also operates gas stations, owns a large chunk of its own REIT and has a rapidly growing financial segment. These operations have led to an impressive performance from Canadian Tire stock, especially in recent years.

The company performed particularly well through the pandemic, especially for a predominantly retail business. Furthermore, it's even continued to perform well since the pandemic restrictions have eased, but other headwinds such as inflation and issues with supply chains have impacted its peers.

There are definitely risks to investing in Canadian Tire stock today, as with any stock in the market, as we approach a potential recession next year. But at this price, is risk already priced in for Canadian Tire stock?

What are the risks of buying this top Canadian retailer today?

First off, the most significant headwind that it faces in the current environment is that its core retail business could suffer from headwinds. As inflation continues to surge, it could impact consumer demand, especially among those being impacted the most by inflation.

In addition, inflation could also make costs more expensive for Canadian Tire, whether that's buying products for its stores or even just labour costs in order to find workers. These impacts could have a significant effect on the company's margins.

Furthermore, there are other risks to consider, too, such as the effect a recession may have on its financial services.

These are crucial to watch. But it's important to remember that Canadian Tire stock has been performing well and firing on all cylinders the last few years.

Therefore, despite these risks, the stock continues to look well on its way to achieving its long-term goal of $26 EPS by 2025. That could still be the case even if its profitability takes a hit over the next few quarters.

Plus, when you consider how cheap Canadian Tire is today, it looks as though all the risk may already be priced into the stock.

How cheap is Canadian Tire stock today?

If you just look at Canadian Tire stock and its price chart, you may think it's not that cheap. However, after its exceptional performance in recent years, and the pullback in the stock through 2022, it's clear that Canadian Tire is well undervalued.

First off, the stock is trading at a forward price-to-earnings (P/E) ratio of just 8.7 times. That's the lowest it's been in the past decade besides through the early stage of the pandemic. In addition, 8.7 times earnings is also well below its 10-year average of 13 times forward earnings.

Looking at Canadian Tire's enterprise value (EV) to EBITDA ratio is the same story. The retailer's EV/EBITDA ratio of 7.8 times is also the cheapest it's been in a decade, aside from the first few weeks of the pandemic. Plus, it's well below its 10-year average of 9.6 times.

Even its dividend yield is much more attractive. After several increases in recent years and a whopping 25% increase earlier this year, the stock now offers a forward yield of 3.9%. That's much higher than its 10-year average of 2.3% for the dividend-growth stock.

Therefore, with Canadian Tire performing exceptionally well lately, returning attractive passive income to investors and trading well below its historical average, it's certainly one of the best Canadian growth stocks to buy in this environment.

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