2 Reasons to Avoid Canadian Tire (TSX:CTC.A) Stock

Description

The anchors of most income investors in their stock portfolios are blue-chip companies with Dividend Aristocrat status. This select group are not only reliable passive-income providers but also inflation hedges during inflationary periods. However, one name that is under the microscope today is **Canadian Tire** (TSX:CTC.A).

Analysts from **Royal Bank of Canada**, **Bank of Montreal**, and **Canaccord Genuity** lowered their price targets for the industrial stock due to legitimate concerns about the business. As a result, the stock continues to underperform in 2022. At $162.78 per share, investors are down by 8.03% year to date.

Eroding profitability

Canadian Tire derives revenue from three core divisions: namely, Retail, Financial Services, and **Canadian Tire REIT**. In the second quarter (Q2) of 2022, management reported a net income of $177.6 million, which is 31% lower compared to Q2 2021. While consolidated retail sales jumped 9.9% year over year, credit losses of the financial services division increased.

Management points the blame to the expected credit losses (ECLs) from receivables (credit cards and others) for the eroding profitability. The company said the ECL allowance increased $56.7 million (6.99%) to $868.4 million compared to $811.7 million from a year ago.

Nonetheless, management assured that its credit card portfolio continues to perform well, despite ongoing economic uncertainty. Greg Hicks, Canadian Tire's president and chief executive officer (CEO), said, "Our results reflect our continued ability to effectively navigate a challenging and dynamic environment."

Hicks said further, “Also, receivables and new account acquisitions at Canadian Tire Bank remained strong, in line with our expectations to drive long-term growth.” Note that the revenue of financial services still grew 15% due to the growth in receivables, credit card sales, increased customer activity, and new account acquisitions.

Higher inventory levels

Because of the late start to warm weather sales and early shipment of fall and winter products, Canadian Tire’s inventory levels are higher than usual. At the end of Q2 2022, merchandise inventories increased by 18% versus the same period in Q2 2021. There’s higher in-transit inventory and more spring and summer goods on hand.

Some analysts say excess inventory could work against Canadian Tire, including markdowns, like it did with U.S. retailers. But Hicks is still pleased, arguing, “The company has the ability to manage inventory levels especially considering what we’re seeing with large retailers south of the border.”

Hicks added, “We feel good about our inventory levels and don’t see any meaningful margin risk or incremental markdown requirements to clear inventory. The company recorded good movement on these products in July once the warmer weather finally arrived.”

Strong underlying demand

TD Securities analyst Brian Morrison anticipated a negative reaction from investors although he clarified that the operations appear to be performing well in a challenging environment. For Irene Nattel, an analyst with RBC Dominion Securities, the quarterly results might be messy but the underlying demand trends remain strong.

Investors can’t easily ditch Canadian Tire for other Dividend Aristocrats. The company has raised its dividends for 11 consecutive years. Total dividend payments in Q2 2022 reached $73.1 million, or a 10.6% increase from Q2 2021. If you invest today, the dividend yield is a decent 3.59%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred

6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. cliew
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/09/01
Date Created
2022/08/16
Author
cliew