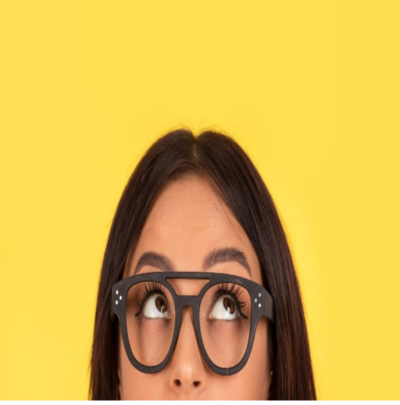

Why Is Everyone Talking About Canadian Tire Stock?

Description

Canadian Tire (TSX:CTC.A) stock rallied 7.3% during Friday's trading session, as investors celebrated the company's latest encouraging quarterly earnings report and management's unwavering commitment to growing shareholder returns. A recovery rally in Canadian Tire stock raised trader interest, and a 33% dividend raise increased CTC.A stock's popularity among passive-income-seeking, dividend-growth investors.

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The company is a $9 billion, 100-year-old retailer that operates more than 1,700 retail and gasoline outlets, including Canadian Tire stores, Mark's, and SportChek banners.

In the latest third-quarter earnings installment read November 10, Canadian Tire reported organically growing revenue. Although some inflation-related earnings snags could cause a frown, the company emphatically claimed its reputation as a reliable dividend-growth stock that provides ever-increasing passive income to its common stock investors.

What happened?

Canadian Tire reported respectable revenue growth of 8.1% year over year for the third quarter to $4.2 billion. The company's retail and financial services have shone strongly after an 11.8% year-to-date sales growth. Although higher inflation ate into the company's retail income before taxes, more robust financial services performance supported the bottom line. CTC's diluted earnings per share dropped 20.5% year over year to $3.34 for the quarter.

Growing credit sales and rising interest rates supported a 17.2% year-over-year surge in financial services revenue during the third quarter. Mark's comparable sales increased by 3.6% year over year, as the business enjoyed strong demand for casual wear while industrial apparel sales expanded.

Despite what may be seen as a temporary bottom-line contraction, Canadian Tire is a dividend stock that remains committed to growing shareholder wealth. The company has announced a 6% increase in its dividend for 2023. The new $6.90 per share annualized payout yields 4.4%. Canadian Tire has raised its dividend for 13 consecutive years now and has quickened its pace of dividend increases in

2022. The latest increase raises the payout by 33% year over year.

Canadian Tire's $6.90 per share dividend for 2023 could comprise about 36.5% of the company's projected net earnings per share (EPS) for 2023 of $18.89.

Given strong earnings, positive free cash flow, and an organically growing revenue base, the company could pay more passive dividend income to stock investors in the future.

Given management's high confidence in the business's long-term, cash flow-generating power, Canadian Tire increased the size of its share-repurchase program by between 25% and 75% from $400 million this year to $500-700 million for 2023. Share repurchases may reduce total claims on the company's future earnings and support higher stock prices.

Time to buy Canadian Tire stock?

Canadian Tire runs a formidable convenience store business that's designed to meet a growing population's daily needs. It may report growing revenue, earn handsome profits and distribute growing dividends from its positive free cash flow in 2023 and beyond, yet Canadian Tire stock remains cheap after a 14% year-to-date decline.

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Although management's sales growth targets for 4% per annum for 2022 through 2025 seem conservative, the company could grow its normalized earnings by 41% from $18.68 in 2021 to over $26 per share by 2025 and expand its return on invested capital from 13.6% to more than 15% in four years.

Sustained organic sales growth and religious dividend increases could be reliable investor return boosters, which makes Canadian Tire stock a retirement planner's friend. The company has increased its annual dividend by an average of 20% per year over the past five years. Having 10% dividend growth every year for the next five years could grow the yield (on cost) from 4.4% to a juicy 7.1% per annum by 2027.

Interestingly, shares seem too cheap to ignore right now. Data from the *StockRover.com* terminal shows Wall Street analysts expect the retailer to grow earnings by an average of 23.4% per annum for the next five years. Given a forward price-to-earnings ratio of eight, Canadian Tire stock sports a forward price-to-earnings-to-growth (PEG) ratio of 0.3.

As popularized by legendary investor Peter Lynch, PEG ratios under one imply that shares are undervalued relative to their future earnings-growth potential.

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