Value Hounds – A TSX Stock With Single-Digit P/Es

Description

It's been a long and grueling bear market. Unfortunately, the early trading sessions of the year don't seem to be pointing to an abrupt end of the bearish drag. The Federal Reserve shot down any hopes of rate cuts (or a timely pause) in its latest meeting minutes. Such news sent a bit of a shiver down the spine of investors. However, the minutes aren't really shocking anymore, as markets mostly shrugged off the negativity, ultimately finishing higher on the second trading day of 2023.

Whenever higher rates become less of a market-mover, a huge negative driver of stocks seems to dissipate. That said, there are other drivers that could prolong this vicious bear market into year's end. While this bear market is long in the tooth, nobody knows how much damage it'll cause from peak to trough or how long it will take for the 2022–23 losses to be recovered.

2023: Nothing to fear but fear itself?

As the next earnings season comes due, we'll likely see where the market goes from here. With somewhat modest expectations, the coming first quarter may not be as horrific as many of us are bracing for. Recessions aren't good for anyone. But at the end of the day, the stock market is all about how things actually stack up against expectations.

Sure, expectations could lower after the next round of earnings. Analysts can always reduce their price targets after the fact. In any case, many investors may be discounting the potential for earnings to be a bit better than expected. In-line earnings may also be viewed in a more positive light, even without so much as a full-year guidance upgrade.

On the whole, valuations are pretty enticing. Of course, there's deeper value out there for individual investors willing to conduct a search. In this piece, we'll look at one such name with a single-digit price-to-earnings (P/E) multiple that I think is a glimmer of value in an otherwise fully valued market that's full of risk.

Canadian Tire

Canadian Tire (TSX:CTC.A) is the discretionary retailer we all know and love. The brand has been around for over 100 years. And at this rate, it'll likely be around for another 100. The company persevered through the COVID-19 crisis, thanks in part to a solid e-commerce platform, a healthy balance sheet, and the spaciousness of its huge brick-and-mortar stores.

Moving into 2023, the tides of recession are expected to hit sales. As a discretionary retailer, it's expected that demand for everything from coffeemakers to patio furniture will slump. In any case, Canadian Tire has done a great job of adding to its roster of exclusive brands (think Sher-Wood hockey sticks), while lowering the discretionary factor.

The inclusion of such items as pet food could help Canadian Tire ride out a recession. Pet food is more of a staple, and as Canadian Tire looks to offer more essential items, the retail business may not be as volatile in the face of future downturns.

The major question mark lies in the financial business. When times get tough, it's this segment that could drag its feet. Whether or not conditions get bad enough to warrant today's mere 8.7 times P/E multiple remains to be seen. In any case, the stock could reach a dividend yield of 5% with another few down days.

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