DSR STOCK CARD

11/30/2022

CANADIAN TIRE CORP (CTC.A.TO)

Business Model

Canadian Tire sells home goods, sporting equipment, apparel, footwear, automotive parts and accessories, and vehicle fuel through a roughly 1,710-store network of company, dealer, and franchisee-operated locations across Canada. Aside from its namesake banner, stores operate primarily under the Mark's, SportChek, Party City, Atmosphere, and PartSource monikers. The company acquired Helly Hansen, a Norwegian sportswear and workwear brand, in 2018. The firm also operates and holds majority ownership of a financing arm (Canadian Tire Financial Services; 20% owned by Scotiabank) and a REIT (CT REIT; Canadian Tire owns about 70%).

The Company in a Nutshell

- CTC built a beloved brand into Canadians' daily lives as one out of every 5 Canadians holds a Canadian Tire credit card.
- CTC successfully built an exclusive portfolio of products in the automotive, living, and repair categories.
- The company acquired Helly Hansen, a Norwegian sportswear and workwear brand, in 2018.

Investment Thesis

We think that CTC enjoys unique brand recognition and has built a solid bond with Canadians. Through its private labels (MotoMaster, MasterCraft, etc.), it can compete against online retailers. The company demonstrated the resilience of its business model during the pandemic. CTC improved its e-commerce site and, subsequently, digital sales surged over the first half of 2020. As people will likely spend more time at home over vacation periods, camping and sports gear sales should increase. Through its wide network, CTC can improve its online sales with in-store pickups. All banners are exhibiting strong growth, and this is reflected in the dividend payment!

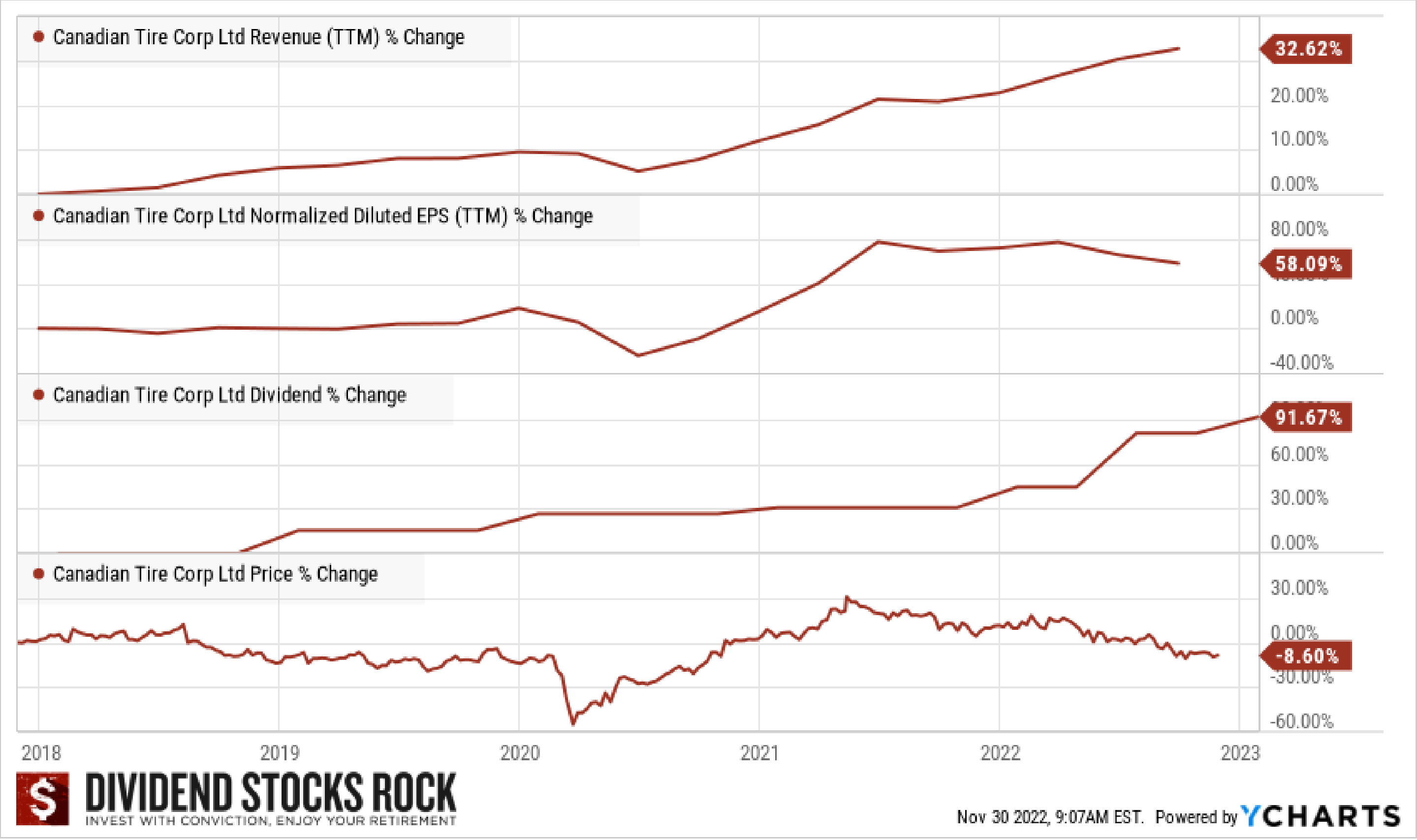
VALUATION

Dividend Growth Rate Years 1-10: 5.00% **Terminal Dividend Growth Rate**: 5.00%

	Discount Rate (Horizontal)		
Margin of Safety	**8.00%**	**9.00%**	**10.00%**
20% Premium	$289.80	$217.35	$173.88
10% Premium	$265.65	$199.24	$159.39
Intrinsic Value	$241.50	**$181.13**	$144.90
10% Discount	$217.35	$163.01	$130.41
20% Discount	$193.20	$144.90	$115.92

DSR STOCK CARD

11/30/2022



Potential Risks

One of the risks for Canadian Tire is the trend toward increased online shopping. Having exclusive products and a strong retail network is helpful, but there is little that CTC can offer in-store or online that a competitor could not also offer. CTC continues to heavily employ more “old school”, traditional marketing methods (flyers, catalogs, etc.). While this seems to be working for now, it may soon cease to because baby boomers are aging. The temporary closure of many of its branded stores (SportChek, Mark's and Helly Hansen) hurt sales in 2020. After a strong rebound in 2021, the hype seemed to fade toward the end of that same year. Investors will want to see more growth going forward. Finally, CTC is also financing a part of its sales through credit card purchases, which could have adverse consequences in the event of a recession.

Dividend Growth Perspective

Canadian Tire has been successfully increasing its dividend since 2011. With its low payout ratio, the company has enough room to stick with a generous dividend payout. Shareholders can expect mid single-digit dividend growth going forward. We were surprised by a generous dividend increase in 2021, from $1.175/share to $1.30/share! Then, in 2022, CTC did it again with a 25% increase (to $1.625/share) and another one of 6% in late 2022. Payout ratios are under control, but additional investment will be required to join and keep up with the digital parade.