



## Should You Buy Shares of Sears Canada?

### Description

There is no mistaking the fact that retailing is a difficult business. Just ask **Sears Canada** (TSX: SCC). The once iconic brand has been struggling for a long time, and recent results have been even worse. In the fourth quarter of last year, poor weather contributed to a 6.4% drop in same-store sales.

Sears Canada's parent, **Sears Holdings Corp** (Nasdaq: SHLD) has been selling off SCC stores, including well-known locations like the one at Toronto's Eaton Centre. To the credit of hedge fund billionaire Edward Lampert, who runs the parent company, this has worked out very well for SCC shareholders. Including special dividends, Sears Canada shares have returned over 100% in the past 12 months.

### Is there anything left?

On Wednesday of last week, Sears Holdings said it is "exploring strategic alternatives for its 51 per cent interest in Sears Canada, including a potential sale of Sears Holdings's interest or Sears Canada as a whole." Analysts have praised the move, since any value in Sears Canada will be unlocked as soon as possible. So what is exactly on the table?

After the past year's asset sales, Sears Canada now has 14 owned department stores, 2 owned Sears Home locations, 96 leased stores, and a few distribution centres. In addition, the company has \$5 per share in cash.

Unfortunately, valuing SCC's remaining real estate portfolio is extremely difficult, mainly because the best locations have already been sold off. What's left is mostly in suburban areas, and would be unappealing to most buyers.

### Who will buy Sears Canada?

One company that may have been a candidate a year ago was **Target** ([NYSE: TGT](#)). But unfortunately Target has stumbled in its Canadian expansion, and today fired its head of Canadian operations. Its growth plans may now be scaled back.

Other foreign rivals looking to enter Canada mostly would want to start with prime locations, rather than what Sears has left. So Sears will have trouble selling all its real estate at once. Some analysts have speculated that this will require a private equity buyer. But a private equity buyer will never pay top dollar.

### **What should you do?**

A year ago, Sears Canada was a struggling retailer, and no one was sure how quickly its value would be unlocked. Hindsight is clearly telling us that the shares were unwanted and undervalued. If you had bet that Mr. Lampert would work his magic so quickly, you would have been handsomely rewarded.

But now the shares are much more speculative, especially since finding a buyer will be quite difficult. Unless you have any special insights, Sears Canada is a gamble not worth taking.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:TGT (Target Corporation)

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### **Author**

bensinclair

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