



Do the 3 Most-Shorted Stocks on the TSX Deserve the Negative Attention They're Receiving?

Description

Canadian stocks, particularly banks, continue to attract considerable negative attention, and this can be attributed to the uncertainty surrounding Canada's economy. There's now considerable shorting activity on the Toronto Stock Exchange; **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) followed by **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) and then **Lundin Mining Corporation** ([TSX:LUN](#)) are the three most heavily shorted stocks on the exchange.

However, despite the headwinds these companies are facing, it is unclear as to whether or not they deserve such negative attention.

Now what?

Much of the negative attention being garnered by Canada's major banks hinges on the massive bet being taken, predominantly by U.S. hedge funds, that Canada's housing market will implode, taking the banks to the brink of collapse.

There are signs, however, that this bet is misplaced.

You see, regardless of the difficult operating environment, the banks are still reporting solid financial results. For the first quarter 2016, Toronto-Dominion's net income shot up by 10%, whereas Bank of Nova Scotia's fell by 12%, primarily because of impairment charges incurred due to its restructuring activities rather than being caused by a decline in its business operations.

Both banks are well capitalized with tier one common equity ratios of 10.1%, and they possess high-quality loan portfolios, where the ratio of net impaired loans remains at about 0.5%, significantly below that required to trigger a balance sheet crisis. They have also reduced much of the risk associated with a housing bust; a considerable portion of the mortgages they've issued are insured, while those that are uninsured have, on average, a conservative loan-to-valuation ratio of about 70%.

An epic U.S.-style housing meltdown just won't occur in Canada. Not only are the conditions [significantly different](#), but there is a distinct lack of subprime mortgages—one of the main triggers of the

U.S.-housing collapse—as well as the securitized mortgage instruments that caused the crisis to cascade across financial institutions.

Meanwhile, Lundin has been heavily shorted because, as a base metals miner it is heavily exposed to the protracted slump in commodities with 70% of its revenue earned from copper. With copper now trading close to its lowest price since the global financial crisis, there is considerable pressure on Lundin; the company carries almost US\$1 billion in debt.

However, the improving outlook for copper coupled with Lundin having substantial liquidity at the end of the first quarter 2016 (US\$561 million in cash) make it difficult to understand why the company is being so heavily shorted.

Investors should consider that even in the extremely harsh operating environment being experienced by miners, Lundin was free cash flow positive for the first quarter 2016, meaning it can continue to reduce its debt. When this is coupled with signs that copper prices will continue to firm in the foreseeable future, it makes little sense to short Lundin.

So what?

It is difficult to understand why all three stocks have attracted such strong shorting interest. Each is performing well regardless of the headwinds they're facing, and that performance should improve significantly once commodities rebound.

CATEGORY

1. Bank Stocks
2. Investing
3. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:LUN (Lundin Mining Corporation)
5. TSX:TD (The Toronto-Dominion Bank)

Category

1. Bank Stocks
2. Investing
3. Metals and Mining Stocks

Tags

1. Editor's Choice

Date

2025/08/03

Date Created

2016/07/22

Author

mattsmith

default watermark

default watermark