Will These 3 Companies Survive Until 2018?

Description

It's never fun trying to predict a company's demise, but it's still a valuable exercise. After all, nobody wants to see their investment go to zero.

One of the problems with value investing is that bargain hunters are always attracted to stocks that are down 50%, 75%, or even 90% versus their highs. Now, 52-week-low lists can be a terrific place to pick up bargains, but they can also be a great place to find stocks ultimately destined to fail.

There's no set formula to avoid stocks that will go to zero. Investors can do things like avoid companies with a lot of debt or a broken business model, but those things are much easier to identify in hindsight. Besides, just about every business listed on the stock exchange was a good business at some point. And just because one company in a sector fails doesn't mean all of its competitors will too.

Still, there are a number of stocks trading on the TSX that could go bankrupt between now and 2018. Here are three I would avoid at all costs.

Sears Canada

Poor **Sears Canada Inc.** (TSX:SCC). It has fallen a long way from its glory years. Shares are down 93% in the last decade.

Revenue has been shrinking for years now, and the trend shows little indication of letting up. The top line in 2015 was $3.42 billion. In 2016, it dropped to $3.14 billion. The annual loss improved — decreasing from $339 million to $68 million — but much of that improvement was due to a special one-time gain.

Although the company doesn't have much in long-term debt, it is responsible for many expensive long-term leases. And when it burns through its available cash of $230 million, it's unlikely anyone will want to lend it the capital it needs to keep going. Would you lend money to Sears Canada? I sure wouldn't.

Torstar

Speaking of failed businesses, let's move onto **Torstar Corporation** (TSX:TS.B), the owner of the *Toronto Star*. *The Star* is Canada's largest newspaper, but that doesn't mean much in 2017.

Torstar has been trying to pivot into digital content for years now without much success. It spent $200 million to acquire a large stake in VerticalScope, a digital media company that mostly owns internet message boards. But that acquisition hasn't done anything to boost the bottom line. Even after accounting for one-time expenses, Torstar still posted heavy losses in 2016.

The good news is, the company is debt free and flush with cash after selling some valuable real estate. That's a major plus, but the company still needs a big turnaround if it's going to survive.

Sherritt

Sherritt International Corp. (TSX:S) has consistently posted red ink over its last few quarters, and the trend doesn't look like it'll let up any time soon.

Much of the company's fate is tied to the price of nickel, which has fallen some 50% since 2014. The company is optimistic the commodity's price will recover, but investors are skeptical.

Sherritt has also been buoyed lately by having its creditors agree to a number of debt extensions, but that's only a temporary fix. Sherrit owes creditors approximately $2.2 billion versus assets worth approximately $3.8 billion. It only has a little over $300 million in cash, although most of its big capital expenditures are behind it.

The bottom line

Predicting bankruptcies is a hard business. It's one thing to get the direction of the trade right; you must also get the timing. Thus, it's going to be difficult for investors to make money shorting stocks like Sears Canada, Torstar, or Sherritt to bankruptcy.

The smarter move is to just avoid these companies at all costs. Even if one — or all three — manage to recover, the risk of losing your whole investment is just too high.

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