3 Stocks Targeted by Short-Sellers on the TSX: Should You Bet Against Them?

Description

Cannabis short-sellers have made over $450 million on October 22 and 23, according to data from the financial analytics firm S3 Partners. The cannabis sector has been hit hard since recreational legalization on October 17. This has allowed cannabis short-sellers to cut a huge chunk of their losses in 2018.

Cannabis stocks are not the only equities attracting short-sellers right now. Today, we are going to look at three of the most-shorted stocks on the TSX. These stocks have struggled in recent months and have taken another hit due to the most recent sell-off. Should you bet against the short-sellers with some of these stocks today? Let’s dive in.

Laurentian Bank (TSX:LB)

Laurentian Bank was one of 20 companies with the highest percentage of shares on loan when trading closed last week. Shares have dropped 27.8% in 2018 as of close on October 24. The stock has suffered a steady drop after the bank revealed a mortgage underwriting issue that sparked an internal review.

Laurentian wrapped up this review in the third quarter and CEO Francois Desjardins emphasized that the bank had resolved the issue with the CMHC and the third-party purchaser. Adjusted net income fell 1% year over year to $59.4 million in Q3 2018 as the company has undergone a strategic shift. It revealed a new strategy in 2016 to optimize and simplify retail operations while also aiming to grow its commercial loan portfolio.

Loans to business customers climbed 14% from Q3 2017 in the most recent quarter. The board of directors also declared a quarterly dividend of $0.64 per share, representing an attractive 6.2% dividend yield. The worst appears to be over for Laurentian, but its strategic shift could still produce hiccups for its earnings going forward. It should still be considered oversold after its mortgage portfolio review, and for those looking to add it, it also offers tasty income.

WestJet Airlines (TSX:WJA)

WestJet stock has dropped 27.3% in 2018 as of close on October 24. The company also has one of the highest percentages of shares on loan on the TSX. Back in June, I'd warned investors that building economic headwinds could be particularly damaging for the airline industry, which has proven vulnerable during downturns in the past.

WestJet reported a net loss of $20.8 million in the second quarter and was negatively impacted by rising fuel costs and an increasingly competitive environment. Early reports on its Swoop launch have been positive, however, and passenger traffic at airlines is still surging. Investors should still exercise caution with airlines right now, but WestJet is in a good position to bounce back ahead of its Q3 earnings release.

Badger Daylighting (TSX:BAD)

Badger Daylighting stock has dropped 13.8% over the past three months as of close on October 24. This company rounds out the three we have discussed today and boasts one of the highest percentages of shares on loan on the TSX. However, its long-term outlook still qualifies this as a strong option. Badger saw adjusted EBTIDA rise 20% year over year to $38.5 million. The company added 36 net incremental hydrovacs and now has almost 1,200 in operation at June 30, 2018.

Badger has reaffirmed its outlook for 2018 and offers a monthly dividend of $0.045, representing a 1.9% yield.

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