



Danger: A Troubled Dividend Stock I'd Sell Right Now

Description

He's back!

Mr. Big Short, Steve Eisman, the man who famously bet against the housing market prior to the Financial Crisis, is back under the media limelight with a Canadian stock that's not a bank.

As you may know, Eisman has been talking down the big Canadian banks ad nauseam over the last several months, citing their "ill-preparedness" in dealing with transitioning to the next credit cycle. Of late, the banks have been clobbered, and Eisman's call has been gaining more merit with investors.

Indeed, he sounds like a genius. And he very well may be one, so it is worthwhile to listen when the man speaks, even if you're a skeptic when it comes to short-sellers who take advantage of the financial media to talk down the companies that they publicly bet against.

What's Eisman's latest Canadian short?

Canadian Tire ([TSX:CTC.A](#)), the legendary brick-and-mortar retailer, is now under the cross-hairs of the legendary short-seller. Several weeks ago, he threw in the towel on the name over eroding gross margins (thanks **Amazon.com**!) and its unattractive credit card business, both of which are significant components of Eiman's short thesis.

Not only is the tire under pressure (no pun intended), the stock still appears to be relatively expensive for a brick-and-mortar retailer at around 12 times trailing earnings. Add a sloppy adaption strategy and a sluggish Canadian economy into the equation, and you've got a stock that should trade with a single-digit P/E multiple.

While Canadian Tire does have an e-commerce platform, I've mentioned in prior pieces that the retailer remains a brick-and-mortar player at heart and will need to get into the home hardware business and not move deeper into easily shippable small goods if the company desired to get its gross margins back on the right track.

Last year, I mentioned that it would have been a good idea for Canadian Tire to [acquire Home Hardware](#)

to step out of the cross-hairs of Amazon.com and other e-commerce competitors. It doesn't really make sense to order lumber and construction materials online, after all!

Canadian Tire instead opted to acquire exclusive branded merchandise that wouldn't exactly make sense to buy in a brick-and-mortar store. Although exclusive branding is a decent strategy to strengthen Canadian Tire's moat, I've suggested that it wasn't the best strategy. Because at the end of the day, Canadian Tire needs to give consumers a reason to go into its physical locations, because it has a tonne of them in prime locations across the country.

At this juncture, management appears lost at sea.

Canadian Tire could blow a tire with its credit card business

Eisman thinks that Canadian Tire's credit card business could crumble like a paper bag amid the recent bout of credit deterioration suffered by the Canadian banks: "[Canadian Tire has] a fairly significant credit card portfolio, which — if I'm right about the credit in the Canadian banks — eventually those problems will show up in Canadian Tire's credit card business," said Eisman in a recent interview conducted by *BNN Bloomberg*.

Given how aggressive Canadian Tire has been at trying to get store patrons to sign up for its credit card, the company's book of consumer loans is likely of vastly inferior credit quality (sub-prime?) relative to the big banks. As such, I suspect Canadian Tire's credit card business could endure even more damage than those of the banks that Eisman is short.

If you've ever been to a Canadian Tire, Sport Chek, or a Mark's, you've probably had folks aggressively trying to get you to sign up for a Canadian Tire credit card right in the middle of the store with the promise of discounts on goods that you intend to buy.

Canadians in aggregate are deep in consumer debt. And by targeting random consumers in your store with the promise of a few bucks off a pair of shoes, you're just asking for a loan book of less-than-stellar credit quality.

It appears as though Canadian Tire has been ramping up its credit card business at the worst possible time. And as e-commerce headwinds mount, I think Eisman will make a killing on his Canadian Tire short. Look out below!

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Author

joefrenette

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