This Acclaimed Investor Just Slammed Canadian Tire (TSX:CTC.A)!

Description

The ominous clouds of an upcoming recession are making investors everywhere reevaluate their decisions. It is also a time when some investors might start to look at shorting options.

Whether you are such an investor or not, you might benefit from what the investor famous for his shorting decisions, Steve Eisman, had to say about **Canadian Tire** (TSX:CTC.A).

At the end of August, the acclaimed investor shared his views regarding the Canadian banks and his decision to short them. The rationale behind these significant shorts also applies to Canadian Tire, a company he believes will suffer the same way and for the same reason as Canadian Banks. The reason? A weak credit cycle. As with any economic downturn, the first thing consumers stop paying off is credit cards.

This defaulting pattern places a severe burden on the creditors. As Canadian Tire has significantly grown its financial sector, the company might face the same trouble as other creditors.

A double-edged sword

Canadian financial services have been a part of the company for decades. While initially a subsidiary and a way to promote loyalty purchases, financial services and the triangle cards have seen significant growth.

These cards are used by over two million Canadians (roughly 5.4% of the total population). Users are offered up to 4% cash backs in Canadian Tire services.

Apart from tethering loyal consumers to Canadian Tires, this credit service provides another edge: Consumer data and predictable purchase patterns. This information is an edge that is seriously beneficial in the current data-driven market, as it has the potential to streamline inventory, production lines, and stocking, potentially allowing the company to become an amazingly efficient retailer chain.

On the flip side, as Steve Eisman points out, this runs the risk of consumers defaulting on their credit card payments in the wake of a recession. Consumer debt is slowly on the rise in the country. Although the economy is in no immediate threat of collapsing, the growing debt will eventually result in reduced consumption, which may also affect the company in reduced sales.

Other numbers

Canadian Tire has a market cap of $9.1 billion. The company has a fantastic presence, with more than 1600 locations in the country, including stores and gas stations.

The company claims that almost 90% of the country's population lives within 15 minutes of a Canadian Tire retail store. A recent move of buying Party City shows that the company is investing in avenues that are recession-resistant.

Canadian Tire's portfolio of operations and earning can be broken down into three major segments: Retail, financial services, and REIT. According to the last quarter report, the earnings of $95.5 million make up for about 30% of the total profits of the company. A number that might suffer the most if the consumer credit market takes a steep dive.

Foolish takeaway

What does it mean for an investor like you? There is neither a definitive buy nor sell call for Canadian Tire, but the danger pointed out by the acclaimed investor is very real.

On the bright side, the wave, if it hits, will hit much larger institutions first, namely, the banks. The banks haven't been making any significant changes in loan or credit card policies, and the credit returns are not in the danger zone yet.

This slamming might be too early, but as investors, you should be aware of the big picture.

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