Uh-Oh: An Infamous Short-Selling Firm Takes Aim at This Iconic Canadian Stock

Description

Ben Axler and his team of analysts at Spruce Point Capital are notorious short-sellers.

One of the more frustrating things — at least if you're long one of Spruce Point's targets — is the hedge fund does its homework and tends to uncover some unpopular truths. Sometimes, investors shrug it off and the stock marches higher. But oftentimes, Axler's team is onto something, and Spruce Point's attention can do permanent damage to a stock.

default watermark

For instance, Spruce Point highlighted **Just Energy** as a suggested short position back in July 2013. The hedge fund predicted Just Energy would cut its dividend again and shares would see continued pressure. That's exactly what happened, and Just Energy shares are down some 65% since that report was initially published.

Spruce Point's attack on **Dollarama**, meanwhile, hasn't worked out quite as well. Shares did sink after Spruce Point's research came out in October 2018, but Dollarama shares rebounded nicely off the lows and now sit comfortably higher, even after selling off after missing earnings this week. Of course, Spruce Point likely still considers that a win, since short-selling is often a short-term game.

Spruce Point is just released another bearish research report on another Canadian company, with this one being perhaps the hedge fund's highest-profile target. Let's take a closer look at the report and see what kind of impact it might have on **Canadian Tire** (TSX:CTC.A).

The skinny

Spruce Point identified many things wrong with Canadian Tire. We'll just focus on a few of the main things.

One of its biggest issues is Canadian Tire's focus on its financing program — something I identified as a risk a little over a year ago. I pointed out that the dependence on credit cards to goose the bottomline wouldn't be such an attractive business during the next recession. Spruce Point goes even further, saying Canadian Tire has taken on significantly more risk in its credit division to help boost the stock.

Another major issue Spruce Point identified was Canadian Tire's weak online presence. Yes, the company is a major player online, but it is being surpassed by competition that offers free shipping — Canadian Tire doesn't — and trends indicate online competition is gaining momentum at the expense of Canadian Tire.

One common criticism of Canadian Tire is the company's stores are cluttered and unfocused, something else Spruce Point included in its report. Although this criticism is less apparent when leveled against some of Canadian Tire's other brands — SportChek, Mark's, and PartSource all focus on niche parts of the retail market — it's definitely something I notice every time I step foot into a Canadian Tire store.

Spruce Point also has issues with Canadian Tire's ability to fund its share-buyback program, further increase the dividend, and to de-lever its balance sheet. The hedge fund's calculations say the company's free cash flow isn't even enough to cover the dividend, never mind repurchasing shares or paying down debt. Spruce Point claims a failure to clean up some debt could lead to a debt downgrade, which is never a good thing.

default watermark

The impact

Canadian Tire shares plunged immediately after the short thesis was made public. Shares were down nearly 4% during early trading on Thursday morning.

Investors should remember that Steve Eisman, who famously shorted the U.S. mortgage market prior to the 2008-09 financial crisis, leveled many of the same criticisms towards Canadian Tire.

Personally, I'm more on the fence. Some of the arguments presented by Spruce Point have been thrown at Canadian Tire for years now, and they haven't mattered. Other arguments are, at least in the opinion of this author, somewhat suspect.

So, if you're a long-term believer in Canadian Tire, you might consider buying this dip. And one thing is for sure: I'm in no hurry to rush out and short Canadian Tire shares.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/24
Date Created
2019/12/06
Author
nelsonpsmith

default watermark

default watermark