# WARNING: A Renowned Short-Seller Sees This TSX Index Stock Crashing 50%

## Description

More than a handful of folks out there (including me) think that the iconic brick-and-mortar retailer **Canadian Tire** (TSX:CTC.A) is going to blow a tire in the new year.



Steve Eisman, a big bear on the Canadian banks, publicly announced his bearish stance on the company just a few months ago, slamming the company for its credit card business and its vulnerability to the competition.

Today, there's another big-league short-seller who thinks that Canadian Tire stock could plunge by as much as 50%. Ben Axler of Spruce Point Capital Management recently sat down with *BNN Bloomberg* to share his thoughts on the retailer that he deems is "poorly positioned" to compete in the new age of retail.

Axler thinks the Tire is "late to the game" and "has been misdirecting capital towards share repurchase and increasing dividends."

I think Axler is right on the money when it comes to his view on the "misdirection" of capital.

Instead of bribing investors with a larger dividend, the company would be better off investing in initiatives that could help it better compete with the likes of retailers that have already had the opportunity to make their presence felt in the realm of the digital.

The company is also facing increasing competition in the world of physical retail, with sporting goods retailer Décathlon potentially breathing down the neck of Sport Chek (one of Canadian Tire's subsidiaries).

As a former Canadian Tire shareholder, I used to be a big fan of the iconic retailer. But with apparent signs of weakness over the last year and no means to recover anytime soon, my long-term thesis changed for the worse, and I couldn't justify holding onto my shares any longer. Not even the dividend yield of 3.1% (which is close to the highest it's ever been) was enough to get me to stick around.

"Canadian Tire looks like it's scrambling to adapt with its hand in far too many pies — winter coats, exclusive pet food, and now party supplies. I just don't understand the strategy anymore, and that's why I threw in the towel on the stock." I said in a prior piece.

Another good point that Axler brought up in his interview with *BNN Bloomberg* was the fact that the company is not price competitive.

In an era of showroom shopping, where one can easily find the lowest price for a given good and order the said item online, Canadian Tire needs to ensure it has competitive prices, or it'll be nothing more than a showroom for customers to try items before they buy it elsewhere.

If Canadian Tire can't compete on pricing, Canadians will start to take note, and eventually the Canadian Tire brand will be synonymous for non-competitive prices and Canadians will head straight to **Wal-Mart**, a retailer that's known for having the lowest prices out there.

## Foolish takeaway

Canadian Tire has some severe issues, but I don't think a 50% plunge is in the cards (unless we fall into recession), as the stock is already quite cheap at just 10.5 times next year's expected earnings.

A management shake-up could be what the firm needs, and if a turnaround artist can jump aboard (perhaps Canadian Tire can get Michael Medline back?), the Tire can quickly get back on the right track in a year or so.



For now, I don't see any capital appreciation in the name over the next year and think the stock could slip another 15-20% as a sluggish Canadian economy rubs salt in the wounds of a firm that's still trying to adapt.

Stay hungry. Stay Foolish.

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