Canadian Tire (TSX:CTC.A) Was Bet Against by Short-Sellers: Should You Do the Same?

Description

Short-sellers seem to have a penchant for Canadian companies. A known short-seller firm from the U.S. recently came out with a report saying that the shares of **Canadian Tire** (TSX:CTC.A), would drop by 50%. The complexity of the business was one of the reasons cited in the report about this Dividend Aristocrat.

The iconic Canadian retailer disagrees with the contents due to several inaccuracies. Management believes that the sole intention of the report was to benefit the author or perpetrator. But how did investors react to the story?

Challenged business model

Canadian Tire did not fall by 50%, although the stock is down to $142.96 — 3.22% lower since the report came out. The short-seller thinks the business model of this $8.9 billion retailer is challenged. It's having a hard time competing with the likes of **Amazon**.

The short-seller added that prices are high, and there is no free shipping, plus the promotion strategy is old-fashioned. Likewise, the firm said Canadian Tire has an over-leveraged balance sheet.

Last September, the company disclosed a $7.9 billion outstanding debt. The short-seller claimed the amount should be over $11 billion if you include dealer loan agreements, lease liabilities, and third-party guarantees. If these were true, then it would be higher than the retailer's market capitalization.

Furthermore, the short-seller said **Moody's** and **S&P** warned Canadian Tire of a credit rating downgrade if it fails to deleverage. Also, the report highlighted that its credit card customers are mostly high-risk lenders. Because of this, Moody's is worried that the company could incur higher losses during an economic downturn.

False impression

According to Canadian Tire, it would be unfortunate if investors get the false impression and react negatively to the conclusions of the report. First, the picture is entirely different. As of the quarter ended September 28, 2019, the company generated more than $500 million in sales in the preceding 12 months.

Second, the operations are unique. Depending on customers' needs, Canadian Tire is an auto supply store, big-box retailer, hardware store, and convenience store. The company even has an automobile service department.

Third, Canadian Tire has done an excellent good job of retaining its customer base. Its towering presence in many small communities, not just in the big cities, gives the company a solid advantage.

Win back the hearts of Canadians

This is the second time this year that a short-seller took a short position in Canadian Tire. The stock fell to below $130 in September, but CTC.A has risen to more than $150 before this latest episode. Analysts are still predicting a capital gain of up to 33% in the next 12 months.

Instead of defending its position, Canadian Tire must find ways to improve its retail model and innovate, particularly in e-commerce. The competition in the retail space is going to be tougher in 2020.

There might be half-truths in the short-seller report. It's an eye-opener for investors. It would be best to if you evaluated Canadian Tire more intently before investing. But keep in mind that the company is not your typical or average retailer. Changes, however, are necessary to win back the hearts of Canadians.

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
2025/08/15
Date Created
2019/12/20
Author
cliew