Danger: 2 Legendary Short-Sellers Are Targeting This Canadian Stock

Description

Steve Eisman's big short on the Canadian banks was arguably one of the biggest Canadian business stories of 2019. The legendary short-seller saw a vast majority of the Canadian banks as being "ill-prepared" for the transition into the next credit cycle and thus far, he's been right on the money.

With more deteriorating of credit in the cards (no pun intended) for 2020, Eisman is not only standing by his bank shorts, but he's also looking for more ways to profit off the ongoing downturn.

Eisman's hunt for the most vulnerable of firms led him to **Canadian Tire** (TSX:CTC.A), an iconic Canadian retailer that's been facing tremendous pressure from digital competitors.

It's not just hungry e-commerce competitors that the Tire has to worry about, however. Eisman sees the company in a vulnerable position because of its large credit card portfolio, which looks to be a significant sore spot as credit continues crumbling.

Joining Eisman in the "short Canadian Tire" club is hedge fund Spruce Point Capital Management, which is also short the stock, noting that the retailer is failing to "stack up" against its competitors thanks in part to a less-than-stellar management team that's been "misdirecting capital toward share repurchase and increasing dividends."

While I'm inclined to believe that all short-seller allegations should be taken with a fine grain of salt (especially the ones that take advantage of the media limelight to talk up their books), the two shorts targeting the Tire are right to be so bearish.

Investors ought to wake up to a scenario in which Canadian Tire could become the next major brick-and-mortar retailer to fall at the hands of its digital counterparts if it continues on its current trajectory.

In many prior pieces, I called Canadian Tire out for having its "hand in too many pies," as it appeared to have made acquisitions just for the sake of making acquisitions.

While the addition of exclusive brands may help beef-up gross margins, they surely won't propel the company out of the massive hole it's dug itself into.

As it stands today, Canadian Tire smells like another non-competitive department store that could suffer the fate of a Sears or Toys "R" Us over the next five years.

While stock may be cheap at 12.8 times trailing earnings, the brick-and-mortar scene is far too risky to go against the grain, especially with a non-competitive player that's losing its lustre.

Ben Axler of Spruce Point doesn't see Canadian Tire as price competitive, and with a lack of free shipping options available (even for big-ticket items), I see few reasons why Canadians should remain loyal to the old-school retailer that has failed to stay relevant in the new era of retail.

Spruce Point sees Canadian Tire falling as much as 50% to around $77 — a level I don't think is far-fetched given the Tire's trajectory and the questionable moves conducted by management over the last several years.

Foolish takeaway

Canadian Tire is facing ever-increasing pressure from competitors. The firm's inability to remain price competitive is enough reason to throw in the towel on the stock and heed the warnings of Eisman and Spruce Point.

Add allegations of aggressive accounting practices and the "ticking time bomb" of a credit portfolio into the equation, and I think Canadian Tire is a name to be avoided like the plague.

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