# The Canadian Big Short: A TSX Stock Headed Downhill in a Hurry!

Description

Canadian Tire ([TSX:CTC.A](#)) stock looks absurdly cheap after being targeted by two renowned short-sellers in the latter half of 2019.

At the time of writing, shares of the legendary retailer look like a steal with shares trading at 9.9 times next year's expected earnings (forward P/E), 8.9 times EV/EBITDA, 0.6 times sales, and 11.1 times cash flow, all of which are lower than the stock's five-year historical average multiples of 13.5, 9.1, 0.8, and 14.9, respectively.

With a well-covered dividend (currently yielding 3.3%), which is the highest it's been since before the 2000 dot com bust, Canadian Tire looks like the newest entrant in the dividend darling club after its short-seller-driven 22% decline from all-time highs hit in August.
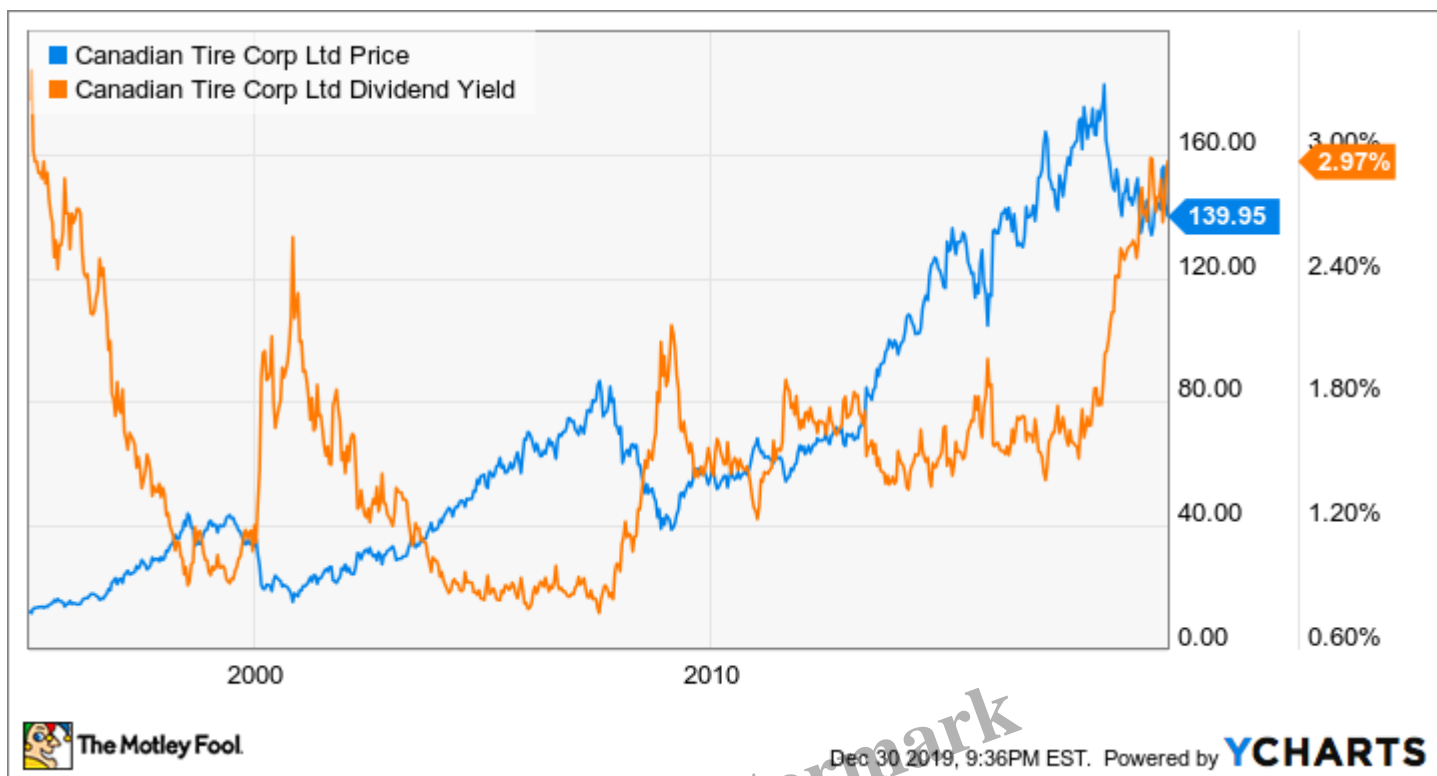
CTC.A data by YCharts.

While it looks like an opportunity to pay a dime to get a dollar, investors may actually be paying a dollar to get two quarters at this juncture, given the baggage that investors could be left holding at the end of the year.

Some heavyweight short-sellers, including Steve Eisman (from *The Big Short*) and Spruce Point Capital's Ben Axler, have a list of reasons why they're short the stock and why it could continue tumbling over the next year. From allegations of aggressive accounting practices to an at-risk credit card business, it's clear that Canadian Tire isn't without its fair share of baggage. The most significant reason to be bearish on the name, I believe, is evidence that the retailer has fallen behind the competition.

There's no sugar coating it. Brick-and-mortar department stores are a horrible place to invest for all but the most robust and well-run firms out there (think **Wal-Mart Stores**).

If there's any hint of noncompetitiveness, sales pressure, or slowness to adapt to the new age of retail, investors should run to the hills and ask questions later, regardless of how big the perceived "discount" is on shares. E-commerce headwinds will only get worse, and only the best-in-breed retailers that can rapidly up their game have what it takes to not succumb to the mounting margin- and sales-eroding competitive pressures.

Not only will the brick-and-mortar retailers of yesteryear need to give their customers a strong value proposition (the guaranteed best price of all goods sold and industry-standard free shipping on sales above $35), but they'll need a competitive e-commerce platform and an exceptional in-storeexperience.

While staying competitive will undoubtedly lower the margin bar for Canadian Tire and all other retailers, it's either the firm takes the margin hit, or sales (and reputation) will be lost at the hands of a better-able competitor.

Loyalty is dead. And no loyalty program will be able to save a retailer that's unable to provide a solid value proposition to customers.

Short-sellers warned that Canadian Tire is already behind the eight ball, with a lack of industry-standard free shipping options, and less-competitive pricing in 2019. While Canadian Tire's managers have since shot down concerns outlined by short-sellers, given my experiences at my local Canadian Tire, I'd have to say the shorts are completely right.

It's not out of the ordinary to find that prices on select items are either higher than a competitor or are out-of-stock. I've also noticed that the in-store experience has diminished drastically of late.

As much as I want the all-Canadian retailer to succeed, I don't think it will under current management, which looks to have fallen asleep at the wheel, making the stock at high risk of blowing a tire.

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