DANGER: Short-Sellers See This Stock Tanking 50%

Description

Canadian businesses have seen their fair share of short attacks over the years. Some big shorts have been smoke and mirrors that have produced massive buying opportunities for believers, like in the case of **Shopify**, but others were dire warning signs that ought to have been heeded by investors.

Consider shares of **Canadian Tire** (TSX:CTC.A), which have been clobbered a good one, courtesy of a big-league short-sellers like Steve Eisman, a man made famous by *The Big Shor*t, and Ben Axler of Spruce Point Capital Management. The stock is currently down 20% from its all-time high reached in August 2018.

The short thesis is essentially threefold: the company has struggled to remain competitive in the new age of retail, the credit card portfolio is a big sore spot amid Canada's credit downturn, and shorts allege that management has engaged in aggressive account practices.

I believe the first two items are worthy of merit, but the latter allegation, I believe, is still up in the air.

In any case, investors have had ample opportunity to head for exits, and while one could argue that Canadian Tire is the next Sears in the making given "mismanagement" and the fact that it's a brick-and-mortar retailer, I'd say that such fears are overblown.

Heavily indebted Canadian consumers have been tightening their belts, and naturally, consumer discretionary plays like Canadian Tire should be expected to take a bit of a hit on the chin. Sure, Canadian Tire may have fallen behind in terms of competitiveness, but things still have a chance to turn around if management smartens up.

I'm not at all a big fan of Canadian Tire stock at this juncture, but should shares continue to tumble, it may make sense to jump in with a contrarian position.

How long can Canadian Tire go?

I'd say a 50% plunge is unrealistic if we're not destined to fall into a recession. Management still has an opportunity to right their wrongs, and over the past few months, I have noticed that more items are being priced more competitively. The price match program enforces Canadian Tire's value proposition to customers, but for now, management needs to invest heavily in both in-store and e-commerce infrastructure to stay in the pricing race to the bottom.

At the time of writing, Canadian Tire trades at 10.2 times next year's expected earnings, 0.6 times sales, and 2.2 book. All of which are substantially lower than historical averages. With a 3.2% dividend yield that's close to the highest it's been in recent memory, income investors may want to add the stock to their watch lists and consider picking up the name should the yield swell above the 4% mark.

Short-sellers have slammed Canadian Tire for putting too much on its capital return program. Bribing investors with more substantial dividends or share-repurchase programs can only go so far. I'd be more optimistic about the stock if management were to halt further dividend hikes and spend aggressively on improving its in-store experience and e-commerce platforms.

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