Former Sears Canada CEO Calls a V-Shaped Recovery “Wishful Thinking”

Description

Investors shouldn’t expect a quick recovery from the COVID-19 recession. If anything, we’re still likely in the early stages of the decline. People are still benefiting from mortgage deferrals, and the government is still paying Canada Emergency Response Benefits to many Canadians. Reality hasn’t hit for many people just yet, especially since some jobs won’t come back, even as cities reopen.

Is the worst still to come?

Former Sears Canada CEO Mark Cohen isn’t optimistic, either. In a recent interview with *CNBC*, he called the idea of a V-shaped recovery “wishful thinking.” For a V-shaped recovery to happen, the economy would quickly rebound back to where it was before the pandemic hit. But he doesn’t see that happening and seems to suggest that the worst is likely still to come.

He believes that people are still utilizing their credit cards, and as they max out their limits, there will be a rent crisis that follows. And with some jobs lost for good, it’s not going to make a recovery any easier or quicker. He also notes that while retailers may open their doors back up, many won’t survive, because they don’t have strong balance sheets and the cash on hand necessary to get through the COVID-19 pandemic.

Investors need to remember, it’s been a little more than three months since the World Health Organization declared COVID-19 a pandemic. A vaccine could take well over a year before it’s available to the public, which means it could still be a long road back for the economy to get back to where it was before the coronavirus started impacting businesses. And that means there will likely be some tougher times ahead for the markets.

What should investors do?

If you’re looking to buy a stock, it’s more important than ever to pay attention to a company’s balance sheet and statement of cash flow. That will dictate how safe a stock is during the pandemic.

Let's take retailer **Canadian Tire** (TSX:CTC.A) as an example. On its most recent earnings report, released back in May, the company had $443.3 million in cash and cash equivalents as of March 28.

To know if that's a strong enough balance, we need to look at how much cash the company generates or burns through. And in 13 weeks up to March 28, Canadian Tire used $147.1 million to fund its operating activities. At that burn rate, the company's current cash on hand would be enough to last for about three quarters, or nine months. That's assuming that the company also completely slashed capital spending. And that's without Canadian Tire looking to raise additional cash via debt or equity.

What this suggests is that Canadian Tire looks to be okay for the near term. There is the risk that the company's burn rate could increase if it's operating near its normal levels and sales are struggling due to the pandemic. But given the information we have available today, Canadian Tire looks to be one of the safer retail stocks out there today.

Before investing in a stock, whether it's in retail or any other industry, investors should carefully review the company's financial health and how long it can last on its current cash balance. If it's less than just a quarter, investors should stay far away from the stock.

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1. Coronavirus
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