GFL Environmental (TSX:GFL) Is Down 9%: “Worse Than Enron!”

Description

Spruce Point Capital, the hedge fund famous for making persistent short sells, has a new target. In fact, the company claims this Canadian company is worse than Enron or Lehman Brothers. That target is recently listed waste management company, **GFL Environmental** (TSX:GFL)(NYSE:GFL).

Here’s a closer look at what this means for the stock and GFL’s future.

Controversial CEO

Much of Spruce Point’s bearish thesis focuses on the chief executive officer’s background. According to the firm, CEO Patrick Dovigi has links to “organized crime.” Spruce Point claims GFL’s filings with the Securities and Exchange Commission were modified to “omit Mr. Dovigi’s connections to parties that have faced regulatory infractions, legal issues and allegations of securities fraud.”

Dovigi is also linked to Claudio Villa, the former owner and director of Earthworx Industries who pleaded guilty to dumping toxic soil in 2015.

Poorly organized firm

Besides the concern about the CEO’s background, Spruce Point has also highlighted GFL’s financial weaknesses. The firm calls GFL’s expansion in the U.S. “haphazard” and says the acquisitions were too expensive.

According to Spruce Point’s research, GFL may have used aggressive accounting practices to overstate free cash flows and understate leverage. This means the company’s financial position is much worse than it might appear in its regulatory filings.

The company goes as far as to say GFL stock has 100% downside risk because of this. “Spruce Point believes that without access to new capital, the Company’s shares are worthless and likely uninvestable for institutional investors.”

What should investors do?

This isn’t the first time Spruce Point has targeted a Canadian firm for a short sell. Back in 2018, the company raised concerns about **Maxar Technologies’s** acquisitions and debt burden. Maxar stock lost 90% of its value over the 12-month period after the report was published.

Spruce Point’s founder Ben Axler is a noteworthy short-seller with 20 years of experience. Over the course of his career, he witnessed the Enron scandal and the collapse of Lehman Brothers while deeply involved in financial circles on Wall Street. Axler says GFL is the worst investment he’s ever seen, with potentially 100% downside risk that puts it on par with those monumental scandals.

GFL stock is already down 9% as I write this. The stock could lose much more, as investors read and react to the report. There’s a remarkably high chance the company could lose much more.

Investors need to consider the worst-case and best-case scenario. In the worst-case scenario, Spruce Point’s analysis is right, and the stock is going down to $0. If this scenario plays out, it’s best to avoid the stock or exit right away.

In the best-case scenario, Spruce Point could have made an error in its research. GFL would have to put out a statement clarifying its financial position, and regulators may have to get involved to verify the claims. This could take months, if not years, while the uncertainty and unpredictability takes a bite out of GFL’s market value. In this case, too, an exit is the best option for most investors.

Bottom line

Spruce Point has an incredible track record of uncovering short targets. The firm now describes GFL as one of the worst investments on the market and has rated it a high-conviction sell. GFL stock has already lost 9% of its value this morning. Investors should probably avoid the stock or get out before the sell-off worsens.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:GFL (GFL Environmental)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing

Date
2025/08/14
Date Created
2020/08/18
Author
vraisinghani