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## Canadian Tire's banking products in the money

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Canadian Tire Corp.'s rollout into selling such banking products as GICs is a stroke of lucky timing in a troubled economy, according to outgoing chief executive Tom Gauld.

Anxious investors have poured half of the roughly \$500-million the retailer has in customer-deposited GIC accounts in the past 45 days.

Selling GICs and high interest savings accounts, which now have about \$170-million in deposits and have been rolled out in earnest this year, are among the ways the retailer's financial services division can cope with a troubled credit market, said Mr. Gauld.

"The GICs in particular we have been working to set up a network for generating this," said Mr. Gauld, whose retirement as CEO was announced yesterday. "This was strategic, not opportunistic.... [But] it turned out to be good timing."

Stephen Wetmore, former CEO of Bell Aliant and a member of the retailer's board of directors for the past six years, will take over Mr. Gauld's duties when he leaves at year-end.

The market for credit-card-backed bonds and securitized assets is being shunned by wary investors for the first time in more than 15 years, according to Wachovia Corp. data.

Wachovia said October was the first month since April, 1993 that there were no sales of the bonds backed by customer payments. Issuers sold US\$17.1-billion of the debt in October, 2007. Top-rated credit card-backed securities maturing in three years traded at a gap, or spread, of 475 basis points over the London interbank offered rate during the week ended Oct. 30, JPMorgan Chase & Co. data show, 25 basis points higher than the previous week.

The spreads are widening, chief financial officer Huw Thomas acknowledged in an interview, but he said Canadian Tire had a wide range of available funding sources in the event of market weakness. The owner of 1,200 retail stores, gas bars, Mark's Work Warehouse and Part Source auto shops has \$1.8-billion in various accounts payable due within the next 12 months.

"We have strong support from the banks and committed bank lines as well as commercial bank lines," he said. "And consumers placing deposits with us is a very cost effective and significant source of financing for us." Canadian Tire has bank credit facilities worth \$1.2-billion in place. He said in a later conference call with analysts that the new sources of financial services funding would help with liquidity if the market for securitization is drying up.

Andy Nasr, an analyst at Raymond James, added the retailer has enough capacity on its balance sheet to cover off any weakness, "for the next few quarters at least...it's concerning, but it is more of a concern for others that don't have the financial flexibility to do it."

He noted the retailer said yesterday that its net write-off rate for the managed portfolio could be higher going forward through the economic downturn than the range it typically operates within of 5% to 6%. In the third quarter announced yesterday, it was 6.04%.

Canadian Tire acquired a banking licence in 2003 as a way to bolster its retailing businesses and increase consumer loyalty through a house credit card.

It began testing conventional mortgages, GICs and high-interest savings accounts in limited markets in 2006 and began expanding them further a year ago.

Despite significant weakness in the wider retail segments among those who sell apparel and appliances, Canadian Tire saw quarterly profit rise 6.3% in the quarter to \$108.6-million, or \$1.33 per share, compared with \$102.2-million, or (\$1.25), a year ago. It reiterated its full-year forecast of \$4.75 to \$5.05 for the fiscal year -- a forecast cut in August amid economic concerns.

Sales rose 7.3% to \$2.61-billion. Same-store sales were 2% in the quarter.

Mr. Gauld, who at one time headed Canadian Tire's financial services unit, came out of retirement in April 2006 to become chief executive and is leaving in the middle of his five-year term. But he said yesterday that management had to seize a good opportunity when Mr. Wetmore announced his departure from Bell Aliant in July.