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Sears Shares Spike 9.5% on Talk of Going Private

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Edward Lampert
Photo By Najlah Feanny/Corbis

Talk surrounding the future of Sears Holdings Corp. was in the fore again Tuesday.

Following last week's concerns about the shuttered lines of credit with CIT and possibly Capital Factors, investors switched tact and started gobbling up shares in the company with an eye toward it potentially being taken private.

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And thoughts are that those lines of credit could be opening up again, as well.

Financial sources said Tuesday that representatives from Sears will be in New York over the next two weeks, meeting with factoring executives. The expectation is that Sears will provide the factoring executives with more information on the financial health of the firm.

Speculation on the future of Sears, including a possible buyout, fueled a jump in shares of the firm's stock, which gained 9.5 percent, or $3.19, to close at $36.75 in over-the-counter trading Tuesday. The stock reached a high of $38.80 in intraday trading over rumors of a deal whereby Sears chairman Edward S. Lampert, along with another investor, would take the company private. A spokesman for Sears declined to comment on market rumors.

This helped spark a jump in retail shares in general, with the S&P Retail Index rising 1 percent, or 5.64 points, to

539.20. Stocks moved ahead on data showing a still rapidly growing Chinese economy, as well as solid interest from bond buyers in Europe in spite of the downgrades on Friday to sovereign credit ratings. The Dow Jones Industrial Average rose 0.5 percent, or 60.01 points, to 12,482.07.

The talk in the credit markets was centered on Sears, but not necessarily about buyout rumors. In addition to CIT, which last week decided to no longer approve vendor financing on future orders, Capital Factors was said to have made the same decision. Wells Fargo and Rosenthal & Rosenthal are still approving orders, and BB&T is said to be approving existing lines through the end of January, according to credit sources.

Credit sources said that factoring executives have been pushing for tighter terms and more information as sales have deteriorated. Whether due to ego or arrogance, Sears tends not to provide much information about its financial picture. That hard-nosed approach is said to have contributed to its recent ills. Had Sears provided the additional information factoring executives were seeking recently, the feeling in the credit market is that CIT might not have elected to shut off credit lines. Playing hardball, which a heavyweight such as CIT can do, at least has Sears in a position where it now knows it needs to be more forthcoming with certain information, one credit source said.

Another credit source said that Sears has about $500 million in credit lines among the major factors. At the end of the third quarter, factors represented 10 percent of trade financing, with CIT alone holding 5 percent, he said. A shutdown of credit lines would largely impact apparel vendors, with the exception of Lands' End, which is private label at Sears and self-financed, but not necessarily vendors in other categories. "The electronics and appliance suppliers operate differently and don't care so much about what the factors do, but care more about other requirements such as floor plan and adjacencies," this credit source said.

With Sears primarily a hardlines retailer, there's isn't an immediate concern it could go bankrupt, another credit source said. Another credit executive thinks the factoring issue has been "blown out of proportion."

One credit analyst also distinguished between Sears and other retailers that went into bankruptcy quickly when credit lines were pulled. He pointed out that Circuit City and Linens-N-Things were in a "more dire" position when trade financing was lost. Mervyns lost credibility quickly when credit lines were pulled since the retailer was primarily soft goods, with nearly 80 percent of its business in apparel, the analyst noted.

Some investors were looking at Sears differently. Options volume in Sears spiked Tuesday after a rumbling about the firm being taken private. Sources said a huge options trade was the January 2013 call spread at $45/$55. That means a block was purchased at $45 around the time a block was sold at $55. It's a trade that suggests someone was speculating that shares of Sears could climb higher over the next year, one financial source said.

While credit sources said Lampert could be looking at taking Sears private down the road, they didn't think it would happen all that quickly. Some said Sears needs to improve operations first and improve its cash flow before that could happen, noting that there wouldn't be any interest otherwise since few want to invest in firms with deteriorating finances.

In a research note from Jan. 12, high-yield analyst Grant Jordan at Wells Fargo Securities wrote that Sears has "significant assets that would more than cover the company's liabilities....Based on the fact that Sears has not drawn down its revolver and appears to be focused on improving earnings, we do not believe a near-term restructuring is likely."

Although Jordan noted that Sears might not be able to quickly realize value in its real estate, he pointed out that Sears does have "significant owned real estate that includes more than half of over 800 Sears domestic full-line stores, almost 200 of the 1,280 Kmart stores, 15 distribution centers and a 200-acre home office."

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