Will These 2 Stocks Bounce Back Next Year?

Description

Several darlings on the TSX have lost their shine in a turbulent 2018. There is good reason for skepticism heading into 2019 as economic headwinds continue to build up. The **S&P/TSX Composite Index** was down 8.2% in 2018 as of early afternoon trading on December 6. Trade concerns, rising interest rates, and slowing global growth have compounded to cast a shadow over international markets.

Today we will look at two stocks that have suffered steep losses in 2018. Should investors bet on a bounce back in 2019?

Dollarama (TSX:DOL)

Dollarama had plunged 10.8% in early afternoon trading during a massive sell-off on December 6. Shares of Dollarama were down 27% in 2018 as of this writing. Dollarama has been one of the strongest companies in the post-financial crisis years, but stores reported slower growth in 2018. New minimum wage laws and rising protectionism have resulted in higher costs.

Dollarama reported lower-than-expected quarterly results on December 6, which was the primary cause of its steep drop. Same-store sales rose 3.1% year-over-year, but transactions dropped by 1%. Total sales just missed analyst expectations at $864.3 million. Dollarama reported that it had reduced its capital expenditure forecast to a range of $180 million-$190 million from $190 million-$200 million.

Dollarama stock was trending toward oversold territory as of this writing. It has flashed RSI below 30 in October and November, but buying low has not been a suitable strategy in Dollarama's case. Dollarama's results have still been strong, but narrow misses are hurting its asset price. At this stage, investors should be picky and wait for technical levels to reach oversold territory before stacking.

Cineplex (TSX:CGX)

Cineplex stock was up 4.25% in early afternoon trading on December 6, bucking the broader negative action on the TSX on the same day. Shares of Cineplex had plunged over 30% in 2018 as of this writing. On Thursday I'd discussed the chances for a Cineplex rebound in 2019.

Cineplex has benefitted from a solid year at the North American box office in 2018, but there are major headwinds emerging for the movie theatre industry in 2019 and beyond. The company will need to maximize revenues from its growing Amusement segment. Cineplex CEO Ellis Jacob is also confident that Media revenue will rebound in the fourth quarter, as companies tend to increase advertising spending in the last months of the fiscal year.

The rise of streaming services is a significant threat to the movie theatre industry, and this has been illustrated by declining overall attendance. Streaming services are flush with cash and will spend even more on producing original content in 2019. Because of this, movie theatres are increasingly reliant on big-budget blockbusters to drive the bulk of revenue.

So far this strategy has yielded success, but even legacy brands like Star Wars have proven vulnerable as *Solo: A Star Wars* story was a financial flop in early 2018.

CATEGORY

1. Investing

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1. TSX:CGX (Cineplex Inc.)
2. TSX:DOL (Dollarama Inc.)

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