Sell Alert: 3 TSX Stocks I'd Ditch Right Now

Description

Just because a stock is cheap doesn't mean it's undervalued. Oftentimes, there are really good reasons why a stock has been battered.

Over the last four months, however, with the broader markets pulling back, it's become a tough task to tell the difference between the duds and the unfairly beaten-up plays. This piece will look into three examples in the former category, so without further ado, here are three duds that I'd continue to avoid on the dip.

Cineplex (TSX:CGX)

The movie theatre business is slowly dying, and in 2019 the problems at the box office are going to become much worse, as the video-streaming content war picks up.

While I'm bullish on Cineplex's longer-term diversification efforts, the box office segment is going to continue to call the shots over the medium term. And over the next three years, I see no sort of relief for the troubled box office segment, which continues to flop quarter after quarter.

Some pretty scary video-streaming players are taking content producers to their own streaming platforms, leaving movie theatres to fend for themselves with remaining content producers who still desire to pursue the route of a theatrical release.

Simply put, a bet on Cineplex is a bet against the continued proliferation of video streaming — a bet I wouldn't advise making, no matter how much cheaper the stock becomes.

Canadian Western Bank (TSX:CWB)

Here's a Canadian bank that's endured the most damage over the last few months. Although the stock looks cheap at 9.98 times trailing earnings, the name still isn't nearly as attractive as its bigger brothers in the Big Six.

The 3.73% yield is unrewarding compared to the other, higher-quality banks out there, and given the bank's overexposure to the troubled Albertan economy, and fickle British Columbian housing market, the only way I'd recommend the stock is if the name had a much better reward to better balance the risk/reward trade-off that I believe not at all favourable for risk-averse investors.

Why an investor would want to risk capital on a sub-par regional bank with a lower payout to the peer group remains a mystery to me. So, pending a massive rebound in Alberta's troubled oil patch, I'd continue to avoid the bank like the plague.

Magna International (TSX:MG)(NYSE:MGA)

I think Magna is the epitome of a value trap. With an eight trailing P/E multiple, you'd think that you're receiving a wide margin of safety with the auto parts maker and that your downside would be limited.

That hasn't been the case, and if you're a believer that we've reached "peak auto" or "peak economic growth," Magna is a compelling short sell, as I find it more than likely that the "cheap" stock will become much cheaper, as we inch closer towards the end of the current economic cycle.

For long-term thinkers, Magna will also suffer as auto ownership moves into secular decline thanks in part to the rise of autonomous vehicles and the continued proliferation of ride-hailing services. For many young people within the millennial cohort, it's not only inconvenient to own a vehicle; it's uneconomical. And as ride-sharing technologies become cheaper and more efficient, car sales will plunge in conjunction with the demand for auto parts.

From a near-, medium-, and long-term perspective, I don't like Magna at all, even if shares were much cheaper.

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2. TSX:CGX (Cineplex Inc.)
3. TSX:CWB (Canadian Western Bank)
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