Are These 2 Favourite Stocks Overvalued?

Description

The beginning of a new year is as good time as any to review our portfolio holdings and reconnect with why we own the stocks we own.

With all the new uncertainties and risks, this year it's more important than ever.

I've singled out two favourite stocks with the intention of determining whether they are, in fact, overvalued and due for more downside.

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS)

One can certainly not argue with the company's operational and financial performance since its IPO in 2017.

In 2018, revenue increased 43%, EBITDA increased more than 80%, and EPS more than doubled, reflecting strong demand, strong execution and solid management of its growth story.

But here we are with a stock that's trading at over 50 times next year's consensus EPS expectations; this is when I get nervous.

Although still relatively strong, the macro environment is deteriorating, debt levels remain high, and housing prices have fallen.

These are all factors that would argue for reduced consumer spending going forward.

Additionally, Canada Goose's growth plans are ambitious, and while history points to them being able to achieve success, there will certainly be bumps along the way.

This valuation doesn't leave room for mistakes, and it certainly doesn't leave room for a deteriorating macro environment.

As the downside risk is too big with Canada Goose stock, I'd stay on the sidelines.

BlackBerry Limited (TSX:BB)(NYSE:BB)

BlackBerry is a little more complicated. With plenty of uncertainty and lack of visibility, our conclusion about whether it's overvalued is largely reliant on our assumptions as to the future success of the company in navigating its way through its new business strategy.

I will review a few things that I like about the company that give me confidence in its future.

First, with more than $2 billion in cash, the company has financial strength.

Second, BlackBerry's acquisition of Cylance is expected to be accretive to adjusted EPS within one year.

Third, BlackBerry has increased its presence in cybersecurity since new CEO John Chen took over, and this latest acquisition solidifies this shift away from the handset and phone businesses.

Fourth, the company's recurring revenue is increasing as a percent of total revenue, and now accounts for 81% of revenue, with management expecting this number to increase to over 90% within a year.

Taking all this into consideration, and the fact that the company has big upside to its earnings estimates leaves me to conclude that it isn't overvalued.

The stock will be volatile and the company faces much uncertainty, but the huge upside to revenue and earnings make it a solid place to put a small percentage of a portfolio.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. NYSE:GOOS (Canada Goose)
3. TSX:BB (BlackBerry)
4. TSX:GOOS (Canada Goose)

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