Warning: Here Are 3 Top Downgrades You Need to Know About Now

Description

Hi there, Fools. I'm back to highlight three stocks that were recently downgraded by Bay Street. Now, it's definitely best to take professional opinions with a grain of salt. But fresh downgrades can often call our attention to risks that we might have overlooked.

For value investors, newly downgraded stocks can even be a source for contrarian buy ideas.

So, without further ado, let's get to it.

Mining mayhem

Leading things off is **SNC-Lavalin Group** (TSX:SNC), which was downgraded to hold/market perform by at least three firms earlier this week. Among them was Desjardins Securities, which also lowered its price target dramatically to $47 (from $72), representing about 28% worth of upside from where the stock sits now.

SNS plummeted as much as 31% on Monday — its biggest drop in 27 years — after warning of a "serious problem" in its mining business. The company didn't identify the troubled project in question, so analysts are being forced to factor increased risks and uncertainty into their valuation estimates.

Of course, with the stock now down 36% over the past year — versus a loss of 7% for the **S&P/TSX Capped Industrials Index** — and trading at a forward P/E of 11, now might be good time for aggressive contrarians to jump in.

Electric shock

Next up, we have **Fortis** (TSX:FTS)(NYSE:FTS), which was downgraded by TD Securities on Tuesday from buy to hold. Along with the downgrade, TD analyst Linda Ezergailis planted a price target of $48 on the stock, representing just 2% worth of upside from where it sits today.

Ezergailis isn't overly bearish on Fortis, but after strong performance over the past few months, she believes the valuation is a little stretched. Shares of the electricity utility are up a solid 11% over the past six months — versus a flat return for the **S&P/TSX Capped Utilities Index** — and sport a not-so-cheapish P/E of 20.

Moreover, Fortis's dividend yield only sits at 3.7% right now. While that's definitely healthy, the yield has climbed above 4% at several points over the past year. So, holding out for a better price makes sense.

Expensive groceries

Rounding out our list is **Metro** (TSX:MRU), which Desjardins downgraded from buy to hold on Wednesday. Desjardins analyst Keith Howlett did raise his price target slightly to $51 (from $50), representing about 7% worth of upside from where the stock sits now.

Metro posted solid Q1 results — adjusted EPS of $0.67 on same-store sales growth of 3.2% — but Howlett believes the valuation already reflects the company's progress. So, while Metro's synergies with Jean Coutu are "proceeding well," Howlett thinks that the stock's recent upswing leaves little upside left.

Metro is up 16% over the past three months — versus a gain of 10% for the **S&P/TSX Capped Consumer Staples Index** — and trades at a P/E of almost 20. Thus, sitting on the sidelines might very well be a prudent move at this point.

The bottom line

There you have it, Fools: three recently downgraded stocks to keep an eye on.

As always, don't view them as formal sell (or buy) recommendations. The track record of professional analysts is notoriously mixed, so plenty of due diligence is still required.

Fool on.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:ATRL (SNC-Lavalin Group)
3. TSX:FTS (Fortis Inc.)
4. TSX:MRU (Metro Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/09/27
Date Created
2019/02/01
Author
bpacampara