Warning: 3 New Bay Street Downgrades You Need to Know About Now

Description

Hi there, Fools. I'm back to highlight three stocks that have been recently downgraded by Bay Street. While we should always take analyst opinions with a grain of salt, new downgrades can call our attention to risks that we might have been overlooking.

For value investors, they can even be a source of contrarian "buy" ideas.

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

Negative spin

Leading off our list is **Spin Master** (TSX:TOY), which Canaccord Genuity downgraded from "buy" to "hold" on Thursday. Along with the downgrade, Canaccord analyst Derek Dley significantly lowered his price target to $45 (from $63), representing just 4% worth of upside from where the stock sits now.

Dley's downgrade comes after Spin Master's disappointing preliminary Q4 sales results. Dley is particularly concerned about Spin Master's Remote Control and Interactive Characters segment, where a slowdown of its Hatchimals eggs drove a 46% sales plunge.

Dley also expects the bankruptcy of toy store giant Toys 'R' Us to keep weighing heavily on Spin Master's business.

"Due to the overwhelming macro challenges and weaker-than-expected performance across the Hatchimals product line, we are compelled to move to the sidelines," wrote Dley.

Spin Master shares are now off about 29% from their 52-week highs set in June.

Amazonian threat

Next up, we have **Canadian Tire** (TSX:CTC.A), which was downgraded by Barclays from "overweight" to "equal" weight earlier this week. Along with the downgrade, analyst Jim Durran lowered his price target on the stock to $166 (from $193), representing about 19% worth of upside from where it sits now.

While Durran thinks that Canadian Tire is doing well to remain a relevant brick-and-mortar retailer, he believes that it could be the next casualty of **Amazon's** increasing presence in Canada. In fact, Canadians ordered more than double the products with Amazon Prime in 2018 over the prior year.

"We believe a catalyst to reduced Amazon uncertainty could be more than a year away," wrote Durran in a note to clients.

Canadian Tire shares are trading near 52-week lows and are down about 15% over the past six months.

Hazardous chemicals

Rounding out our list is **Nemaska Lithium** (TSX:NMX), which BMO Research downgraded yesterday from "outperform" to "market perform." Along with the downgrade, BMO analyst Joel Jackson slashed his price target on the stock to $0.50 (from $1.45), representing about 56% worth of upside from where it sits now.

Although Jackson still likes the stock's appreciation potential, he thinks poor execution of late — regarding Nemaska's Whabouchi mine and electrochemical plant — is good reason to tame expectations.

"[C]onsidering recent execution, concerns over future missteps, and the likely low negotiating power NMX possesses to raise the additional required funding, we are unable to stay constructive on NMX," wrote Jackson in a note to clients.

Nemaska shares are down more than 50% over the past year and are about three times as volatile as the overall market.

The bottom line

There you have it, Fools: three recently downgraded stocks worth investigating.

As always, don't view them as formal sell recommendations. They're simply stocks that you might want to approach with extra caution. The track record of Bay Street analysts is mixed, so plenty of your own homework is still necessary.

Fool on.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:TOY (Spin Master)

PARTNER-FEEDS

1. Msn
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