Stay Away From These 3 Stocks

Description

In a rising market, every stock can feel like a winner. But a market-wide downturn can quickly crush poor companies with rich valuations. As Warren Buffett once said, when the tide goes out, you get to see who has been swimming naked.

Which Canadian stocks look primed for a poor 2019, especially if a recession hits? Stay away from these three stocks.

BRP (TSX:DOO)(NASDAQ:DOOO)

As I wrote a few months ago, BRP dominates its industry. Globally, the company has a 50% market share for snowmobiles and a 55% market share for jetskis.

BRP's management team has converted these market leads into real cash flow for shareholders. Over the last two quarters, EBITDA has risen by 47%. Compared to the year earlier, normalized earnings per diluted share have popped more than 100%.

So, what's not to like?

The stock looks cheap at 12 times forward earnings, but a mere hiccup in consumer spending could send this stock downward. Its products, after all, are luxury items aimed at the middle class. If the economy gets a whiff of turmoil, it won't be difficult for millions of potential customers to delay their next purchase of a jetski or snowmobile.

If current conditions persist for years to come, BRP stock is likely a bargain — but it's a bet I'm not willing to take.

Northern Dynasty Minerals (TSX:NDM)

Northern Dynasty doesn't have any mines in operation, meaning it's a money-losing venture for now.

Soon, company executives hope to capitalize on its prized asset: the Pebble Project.

If developed, this project could deliver 57 billion pounds of copper, 71 million ounces of gold, 3.4 billion pounds of Molybdenum, and 345 million ounces of silver. I'm not buying the promises.

First, the company needed to drastically reduce the scope of the project after environmental concerns, yet management still states overly inflated metrics that assume the entire project is developed. Second, some investors are concerned the mine has no long-term value given it will cost so much to build.

Over the past few years, multiple partners have pulled out of the project, and Northern Dynasty is currently the only company with an interest. Management anticipates getting a new partner soon — a necessary move if the mine will ever be developed — but if the other partners pulled out due to investment risk concerns, it's likely the next potential suitor will have the same issues.

This seems like a goldmine waiting to be realized, but jumping in before the next partner is identified could result in a complete loss of capital.

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ)

A fan favourite among Canadian energy investors, Canadian Natural simply is a poor business. While its management has tried its best to generate positive returns for investors, they're fighting a rising tide.

The issue isn't in the way Canadian Natural is operated, but in the assets it owns.

Competitors like **Exxon Mobil** and **Chevron** are set to develop large projects in North America with breakeven prices as low as US$15 per barrel. Canadian Natural, meanwhile, has an estimated breakeven price of at least US$40 per barrel. Over the next few years and beyond, it's going to be very difficult for Canadian Natural to remain competitive.

Oil sands projects simply may not exist in a decade or two. As a pure-play oil sands company, Canadian Natural faces a steep uphill battle.

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1. Energy Stocks
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3. TSX:CNQ (Canadian Natural Resources Limited)
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