Looking For High Quality? Avoid These 3 Stocks

Description

Having recently scraped the bottom of the barrel with 52-week lows, the following **TSX index** stocks exhibit chronic low momentum. Should that rule them out for the average investor? Let's take a look at whether capital gains traders should stay away, and whether one good dividend yield is worth a handful of low-quality-signifying stats.

Shaw Communications (TSX:SJR.B)(NYSE:SJR)

This TSX index telecoms mogul's year-on-year returns of just 2.5% missed the Canadian media average of 8.2% for the same period, and while its one-year past earnings growth has been solid at 85%, a negative five-year average past earnings-growth rate shows a poor track record.

Shaw Communications's return on equity has been 8% for the past year, showing that better use could be mad of shareholders' funds, while a level of debt compared to net worth of 87.2% shows a balance sheet to match its half-decade track record.

Trading at less than half of its future cash flow value, Shaw Communications's market ratios tell a somewhat different story, with a P/E of 30.3 times earnings and P/B of 2.4 times book signalling overvaluation. However, a decent dividend yield of 4.34% and 22.8% expected annual growth in earnings may make this stock a buy despite so-so quality.

Celestica (TSX:CLS)(NYSE:CLS)

Celestica's returns underperformed the Canadian electronics industry for the past year, while negative one- and five-year past earnings-growth rates straight away raise a red flag. Indeed, red flags abound here: a past-year ROE of 7% shows poor use of shareholders' money, while Celestica insiders have only sold shares in the past three months.

Additionally, Celestica's level of debt compared to net worth has increased over the past five years from 0% to 57.2% today and is not well covered by operating cash flow. A capital gains stock, but one that has been showing a lack of momentum, this one is for true electronics bulls only. Selling at around a quarter of its future cash flow value, its P/E of 12.3 times earnings and P/B of 0.9 times book may attract a value investor, however.

Power Corporation of Canada (TSX:POW)

This major TSX index asset manager's returns over the past year have been higher than the industry average at 11% vs. 3%, though a low one-year past earnings growth of 0.1% and matching five-year average of just 3% show a pedestrian track record.

With a ROE of 9% for the past year and debt level of 46.8% of net worth, the quality stats are unimpressive. Though low market ratios signal a low-achieving stock, a P/E of 11.8 times earnings and P/B of 1.1 times book at least show good value for money.

However, while a decent dividend yield of 4.69% is made all the more appealing by a 31.9% expected annual growth in earnings, long-term investors may have to ask whether a low return on equity and only barely positive track record make for a solid buy.

The bottom line

A low return on equity makes for a low-quality stock, and with shoddy balance sheets to boot, the three stocks listed here might not be everyone's cup of tea. Perhaps the biggest no-no, however, is that lack of momentum, which makes all three stocks a miss for the general TSX index investor looking to make some capital gains further down the road.

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3. TSX:CLS (Celestica Inc.)
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vhetherington