Professionals Warn: 3 Well-Known Stocks That Could Punish Your Portfolio Very Soon

Description

Hello again, Fools. I'm back to call your attention to three stocks recently downgraded on Bay Street. While we should always take professional opinions with a grain of salt, analyst downgrades can often call our attention to hidden risks.

And for bargain-hunting value investors, they can even be an interesting source of contrarian buy ideas.

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

Dimming near-term

Leading off our list is online gambling specialist **The Stars Group** (TSX:TSGI)(Nasdaq:TSG), which Desjardins analyst Maher Yaghi downgraded to "hold" from "buy" on Thursday. Yaghi also lowered his price target on the stock to $35 (from $37.50), representing about 90% worth of upside from current levels.

Yaghi's call comes in response to Stars' soft Q1 results, which were impacted by foreign exchange volatility and operational issues. While Yaghi still likes Stars' potential over the long run, he says that growth upside might be limited in 2019.

"Guidance for 2019 is potentially at risk if we do not see a material reversal in results in the coming quarter," said Yaghi. "Hence, while we still like the long-term prospects for the business, we believe a more cautious view is warranted until we have more confidence in the company's operational performance."

Stars shares are up about 9% in 2019.

All shopped out

Next up we have e-commerce technologist **Shopify** (TSX:SHOP)(NYSE:SHOP), which **Morgan Stanley** analyst Brian Essex downgraded to "underweight" from "equal-weight" on Wednesday. Essex also raised his price target to US$209 (from US$173), representing about 25% worth of downside from current levels.

Morgan Stanley's call comes on the heels of Shopify's recent outperformance, which Essex calls "unwarranted." While Essex acknowledges that Shopify is an industry leader, he thinks that the valuation has far too much optimism baked into it.

"In addition to a model that is increasingly becoming transaction-based over time, we see a number of risks that could limit the company's ability to bring unit economics, and therefore terminal valuation, in-line with that of large enterprise-focused peers," said Essex.

These include a growing reliance on an SMB installed base, elevated customer churn, and low gross margins."

Shopify shares are up a whopping 98% in 2019.

Real estate bubbled

Rounding out our list is retail real estate owner **SmartCentres REIT** (TSX:SRU.UN), which Desjardins analyst Michael Markidis downgraded to "hold" from "buy" on Monday. Markidis maintained a price target of $34, almost exactly where the units sit today.

According to Markidis, the company's current valuation and recent decline in net operating income (NOI) should give investors some pause. Markidis even lowered his 2019 and 2020 FFO per unit forecasts from $2.35 and $2.57, respectively, to $2.19 and $2.24.

"The 0.2-per-cent year-over-year decline in same-property NOI in 1Q19 was largely due to the closing of 21 Bombay and Bowring stores aggregating to 103,000 square feet," wrote Markidis. "We believe SRU will successfully backfill these unplanned vacancies; however, the effort will likely take 12–18 months to unfold."

SmartCentres is up about 11% so far in 2019.

The bottom line

There you have it, Fools: three recently downgraded stocks that you might want to check out.

As is always the case, don't view these downgrades as a list of formal sell recommendations. View them instead as a starting point for more research. The track record of analysts is notoriously mixed, so plenty of your own homework is still required.

Fool on.

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2. TSX:SHOP (Shopify Inc.)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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