3 Stocks That Were Recently Downgraded: Should You Buy?

Description

The stock market can provide just as much as it takes away. As investors, we're always looking for that ripe opportunity to pick up a stock while it's down, hoping against hope that we're right and it will soar into the stratosphere sooner as opposed to later.

So, when stocks are downgraded by analysts, there are two ways to look at it: either the stock is set to drop even further and investors should stay clear, or opportunity is knocking.

Frankly, it depends on the stock. So, with that in mind, I'll be looking at three recently downgraded stocks, and whether it's opportunity or worry that should be on the minds of investors.

Aphria

Last week, CIBC analyst John Zamparo downgraded **Aphria** (TSX:APHA)(NYSE:APHA) ahead of its fourth-quarter earnings report. Zamparo called Aphria's outlook "aggressive," believing that earnings will indeed be missed. Zamparo downgraded the stock from "neutral" to "underperform" for the industry and dropped the price target from $12 to $6.50 per share for the stock.

The stock currently trades just above that at around $7 per share at writing, and while Zamparo believes Aphria should still be considered a premium pot producer, it had a lot to prove. Its poor performance quarter after quarter, along with its Latin America scandal, have spooked investors, and put Aphria off its $1 billion goal by the end of 2020. Right now, kilograms sold is the where investors are likely to be looking when considering this stock.

That's why it was such a shock when Aphria announced it was the first major Canadian pot producer to turn a profit. It earned net income of $15.8 million — a huge increase from the $5 million loss the same time last year. That $1 billion goal isn't looking so crazy after all.

CNR

While **Canadian National Railway** (TSX:CNR)(NYSE:CNI) can't really be compared to Aphria, it hasn't been performing as well as its competitor **Canadian Pacific Railway**. While CP had many analysts change their tune to a "buy," CNR has recently been placed in a "hold" position.

Don't get me wrong; those analysts are also saying CNR will still outperform in its industry, but its latest earnings results were just not comparable to the results reported by CP. Over the long term, however, volume should pick up, especially in the United States and as track expansion efforts are completed.

While analysts are calling the stock a hold, if you're a long-term buyer, you can't really go wrong with a stock like CNR. If not, wait perhaps for a dip before buying up the stock.

Kinder Morgan

Finally, we have **Kinder Morgan Canada** (TSX:KML), a stock weighed down by both the oil and gas industry and pipeline pushback. The stock was recently marked as "outperform" by BMO Capital, but that was downgraded this week to "sector perform," with a 12-month target price of $12 per share.

The pipeline company has plummeted since last year, with the stock trading at $47.34 on Christmas Eve, and then dropping like a rock 69% as of the new year. Since then it hasn't been much better, with the stock slumping down to $11.61 as of writing, just below **BMO's** price target.

This stock is tricky, as long-term investors could see a lot come out of Kinder Morgan. More energy infrastructure will likely be needed in the near future, and Kinder Morgan would benefit from this. The company has little debt, and is supported by long-term contracts. Then there's the huge cash grab it got from the Canadian government after its purchase of the Trans Mountain Pipeline expansion.

But the mistake it made was by staying as a standalone company, according to analysts, and investing in the assets it already has. The company needs to build new assets if it hopes to expand further over the long term. Until then, I would hold off on this stock.

Foolish takeaway

So, there you have it. While there are some stocks that can provide ample opportunity for investors, there are still more than enough of those that would trick investors to buy while the share price is down. In the case of these stocks, it's always important to do your own research, looking at what other analysts say before making any final decisions.

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