2 Canadian Sin Stocks to Avoid During a Slowdown

Description

Most sin stocks make money by relying on people's addiction. Think tobacco, alcohol, fast food, and casinos. Generally, sin companies are pretty good additions to an investor's stock portfolio. After all, addiction by definition lasts through good times and bad.

So, revenues are stable for sin companies since their businesses are considered to be recession-proof. We have written about good buys in this space during a slowdown.

However, not all sin stocks are good buys. Some companies in this space are prone to taking hits during a slowdown because of bad location or competition.

Gamehost

Gamehost (TSX:GH) operates hospitality and casinos in Alberta. The company declared its results for the third quarter of 2019, and the metrics were lower compared to the same period in 2018. Operating revenue was down 2.3% from the third quarter of 2018 to $16.9 million. Shareholder earnings were down 9.5% to $3.8 million from $4.2 million in 2018.

Gamehost hasn't recovered from the highs of $10.51 it traded at during April 2019. It's currently trading at $8.18. A major reason for the slump in the company's revenues and consequently its share price is the region in which it operates.

Alberta's economy is very dependent on oil, and oil is not doing very well right now. Gamehost runs three different casinos and three different hotels in Alberta. While Gamehost is doing its best to trim costs and keep its head over water, any further deterioration in the economy will have a cascading effect on its revenues. The company's Boomtown Casino in Fort McMurray in particular hasn't recovered from the effects of the wildfire that ravaged the region.

It's unlikely that customers are going to be flocking in droves to casinos when they aren't sure of their next paycheque. Gamehost's clientele will likely stay away from their properties, and so should you.

Molson Coors

Molson Coors (TSX:TPX.B)(NYSE:TAP) is an iconic beer company that boasts of names like Blue Moon, Coors Banquet, Coors Light, Miller Genuine Draft, Miller Lite, and Staropramen in its portfolio. But even these icons haven't been able to stop the slide of the stock from a high of $88.8 in April to $71.5 today.

The company's third-quarter results for 2019 showed net sales of $2.8 billion — a decrease of 3.2% from the same quarter last year. Worldwide brand volume and financial volume decreased by 2.4% and 5.5%, respectively, due to declines across business segments.

Net cash from operating activities was $1.28 billion for the nine months ended September 30, 2019, a decrease of $503.2 million compared to the nine months ended September 30, 2018. Cash flow until September 30, 2019, was $884.8 million, a 13.7% decrease from cash flows of $1.025 billion for the same period in 2018. The company also holds net debt of $8.842 billion.

To be fair, Molson Coors has announced several steps to boost revenues and capitalize on the brand name, including investing in its iconic brands and looking to a future beyond beer. The company also plans to unlock $150 million in savings by simplifying its structure by moving from four business units (MillerCoors US, Molson Coors Canada, Molson Coors Europe, and Molson Coors International) to two business units (North America and Europe).

However, these changes will take time to implement. You also have to keep in mind that beer consumption in the U.S. peaks from May to August. That's still two quarters away. Until then, it's safer to wait and watch.

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