Canadians Beware: A Frothy Stock I'd Sell in December

Description

The markets just touched down with new all-time highs, and with recession fears still lingering in the background, it makes sense to do a bit of profit-taking on some of the frothier stocks out there if you haven't done so already.

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Consider a richly valued stock like **CCL Industries** (TSX:CCL.B). As the world's largest label maker, CCL is one of the most boring businesses out there.

The firm has relatively predictable cash flows, a solid long-term growth trajectory, and is precisely the type of business that Warren Buffett loves to own: easy-to-understand and highly profitable.

The company has been bolstering its business with intriguing acquisitions over the years, with scoop-ups like Checkpoint, a loss prevention and inventory management labelling solution, adding a fresh jolt of technological innovation into the firm's otherwise low-tech business of labels, product packaging, aerosols, and all the sort.

CCL has been a massive outperformer over the last decade, posting multi-bagger returns (shares up over 1,200%) since bottoming out in February 2009. But of late, the stock has fallen into a consolidation channel, with shares now at the bottom of the range.

More recently, the company pulled the curtain on its Q3 2019 results, which were overshadowed by management's muted outlook. Growth is now expected to be flat for the fourth quarter and could drag on into fiscal 2020.

Fellow Fool Kay Ng noted in a prior piece that CCL is a top industrial to buy during a market crash due to the "boom and bust" nature of its business.

Given where we're at in the market cycle (we could be on the brink of a recession), with evidence of softer end-market demand for CCL's core business, I'd argue that CCL is a top sell candidate given the potential damage the stock could endure.

The stock is also looking pretty expensive despite being down over 15% from all-time high levels reached this summer. At the time of writing, CCL shares trade at 19.3 times next year's expected earnings, which is a tad stretched given the softer outlook and the potential for more downgrades should the economy continue to drag or even fall into a recession in late 2020 or early 2021.

While CCL may be a wonderful business, the valuation doesn't make sense given we're in the late stages of a pretty old bull market. The name may be a top pick after the markets crash, but given we could be on the cusp of one, it'd be a name to sell unless you're in the belief that the next recession won't be kicking in anytime soon.

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