Warning: Sell These 3 Stocks Right Away!

Description

The economic impact of the coronavirus pandemic was becoming apparent in late January. I wrote about how the shutdown in China and subsequent global spread of the virus could impact luxury goods and online stores.

However, no one could have imagined that the stock correction would be so swift and so deep. At this point, Canadian investors are facing an extended recession and a fair share of bankruptcies. I believe three sectors of the economy are particularly vulnerable.

Investors should consider selling the following three stocks.

Hotel properties

American Hotel Properties REIT (TSX:HOT.UN) is focused on a sector that I believe could be the biggest casualty of this crisis: tourism. The company owns and manages hospitality properties across the United States.

The U.S. has declared a national emergency, while some states have issued “shelter in place” orders. Domestic and international flights have been severely restricted. Given the number of cases in the country, the outbreak could unfortunately escalate further.

This means that hotels are exposed to a dramatic decline in revenue this year. To make matters worse, American Hotels could face two more challenges: a correction in real estate prices and its own debt burden.

The trust carries $1.83 in debt for every dollar in equity. Meanwhile, savvy investors like Carl Icahn are betting on a decline in commercial real estate values this year, which means the debt-to-equity ratio could be many times higher this year.

Despite its 39% dividend yield, please avoid this stock!

Oil stocks

Vermilion Energy's (TSX:VET)(NYSE:VET) 48% dividend yield is similarly unreasonable. Canada's oil and gas sector has already suffered a demand shock under the pandemic-driven travel restrictions. Now, the ongoing Saudi-Russia price war has pummelled this sector further.

Vermilion's hefty debt burden is now starting to look lethal. According to its latest report, the company had $2 billion in debt and only $26 million in cash on hand. Profits were razor-thin *before the crisis.* Now that the price of crude oil is significantly lower, Vermilion could be compelled to make some tough decisions.

The dividend has already been cut, and I wouldn't be surprised if it was cut further or suspended entirely in 2020. Unsurprisingly, the stock has shed 85% of its value over the past month. Investors need to be cautious and ditch this stock.

Cannabis

Liquor and cannabis stores remain open in much of the country, despite the health emergency. Unsurprisingly, sales have spiked at these stores. I'm going to have a stiff drink myself once I'm done writing these pessimistic articles.

However, the sales spurt could be too little, too late for **Aurora Cannabis** (TSX:ACB)(NYSE:ACB). The company's founder, Terry Booth, offloaded a major chunk of his stake this week. Insider selling is always a red flag.

Another red flag is the company's cash flow. Aurora's cash is likely to run out before the end of the year. Meanwhile, the stock and credit markets have been too volatile for the company to raise additional funds. It already owes $602 million in long-term debt.

If the shutdown persists for longer than expected and supply chains are disrupted for cannabis companies, Aurora's situation could worsen. For the moment, however, it's best that investors keep a safe distance.

CATEGORY

1. Coronavirus

TICKERS GLOBAL

1. NASDAQ:ACB (Aurora Cannabis)
2. NYSE:VET (Vermilion Energy)
3. TSX:ACB (Aurora Cannabis)
4. TSX:HOT.UN (American Hotel Income Properties REIT LP)
5. TSX:VET (Vermilion Energy Inc.)

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vraisinghani