Coronavirus Meltdown: Sell These Stocks Now

Description

Coronavirus fears are rattling the market. While some are predicting a quick rebound, as time goes on, those hopes are being dashed. International experts now worry that social distancing measures may persist through the end of 2020, which could lead to massive layoffs and the shuttering of thousands of small businesses.

Larger companies won't be spared. Some were hoping to grow exponentially in China. Others are reliant on new funding to stay afloat. The coronavirus is killing global economic activity and tightening credit markets. If a company can't get cash-flow neutral fast, coronavirus fears will continue to send shares spiraling.

The following Canadian stocks are particularly vulnerable. Even if you don't own these companies, pay close attention to their weaknesses. Stocks in your portfolio could face the same risks.

Coronavirus fears have crushed China

On December 31, Chinese authorities treated dozens of cases of pneumonia from an unknown cause. By January, Wuhan a city of 11 million, was quarantined. A few weeks later, the World Health Organization declared a global health emergency.

While China has successfully mitigated new cases, the country won't return to normalcy for many months. Depressed demand from other continents, particularly Europe and North America, will further impact its economy. That's bad news for **Canada Goose Holdings Inc** (TSX:GOOS)(NYSE:GOOS).

Canada Goose is best known for selling $1,000 jackets that were originally designed for scientists in Antarctica. The retailer's stock quadrupled following its 2017 IPO, but shares now trade at IPO levels, as China was supposed to be its biggest long-term growth opportunity. Sales had been growing by more than 50% per year before the pandemic began.

The stock is cheap, trading at 15 times trailing earnings versus a high of 150 times earnings. But if you own stocks like Canada Goose that rely on Asian market growth, you'll need to be patient.

Credit markets may evaporate

Maxar Technologies (TSX:MAXR)(NYSE:MAXR) was once on top of the world — literally. The aerospace equipment manufacturer is responsible for building satellites and other space-grade components. In 2018, its stock price hit $70, a 250% increase from 2009 levels.

Then the hammer fell. A short-seller report in 2018 accused company executives of using aggressive accounting practices to mask weaknesses in the business. The stock ultimately fell by 90%. A falling equity value has put the spotlight on debt, which currently stands at more than $3 billion versus a market cap of less than $1 billion.

If you own highly indebted companies, be careful. Although interest rates are falling, capital is growing scarce. Companies with low credit ratings will see their financing costs soar or be eliminated entirely.

Early-stage growth is riskier than ever

Big gains can be had through early-stage investing. Taking a risk when others are unwilling can translate into major profits. But when credit is tight, this is a terrible space to have exposure.

Consider **Green Organic Dutchman Holdings Ltd** (TSX:TGOD), a Canadian pot producer. Cannabis demand remains strong, and demand is expected to grow by billions of dollars through 2030 and beyond.

The problem is that Green Organic is just starting to grow, and it production facilities aren't expected to reach full-tilt until the end of 2020, potentially 2021.

Early-stage operations have limited inbound cash flow. If financing dries up, there will be no way for Green Organic to convert its infrastructure into sales dollars.

Rapid growth was expected in 2020, but all of that requires more capital. The company has less than $30 million in cash on the books despite burning $200 million in cash last year.

If a company can't generate and retain free cash flow, think twice about owning shares.

CATEGORY

1. Coronavirus
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1. Cannabis

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2. NYSE:MAXR (Maxar Technologies)
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