2 Stocks I Wouldn't Dare Touch

Description

Deep value is quite abundant on the **TSX Index** to this day. Many battered stocks within the hardest-hit areas of the economy are still a country mile away from their pre-pandemic heights.

While low valuation metrics (such as the P/E ratio) may suggest there's deep value to be had in such names, investors should be careful, as some firms may be slower to recover than others as the COVID-19 uncertainties continue to mount over the coming weeks and months.

Consider shares of **Alaris Royalty** (TSX:AD) and **Magna International** (TSX:MG)(NYSE:MGA), two beaten-up stocks I personally wouldn't touch at today's valuations.

While I am a believer that any stock, even the one in the worst industry at a given moment, can be a buy if the price is right, the following two names aren't low enough to justify my contrarian investment dollars.

Alaris Royalty

I've never been a huge fan of Alaris, a company that provides capital to North American private businesses and derives a revenue stream from a baker's dozen or so of them.

My problem with Alaris is that one must understand each business (and how they stand to be impacted by the COVID-19 pandemic) to avoid a scenario that would result in a disruption that would pave the way for additional dividend cuts.

Alaris recently reduced its dividend amid its unprecedented decline. While the now 9.6%-yielding dividend is a heck of a lot safer than it was before, I'm still a bit wary over the potential for further pressures should this pandemic drag on for longer than expected.

Fellow Fool Kay Ng noted that Alaris's track record isn't nearly as bad as the stock chart would suggest, noting that only four of 15 businesses that exited led to huge losses.

All it takes are just a few bad apples to spoil the bunch. And if you don't care to look at the businesses that Alaris provides capital to, you could be setting yourself up for major downside.

If you're willing to roll up your sleeves and do the analysis with Alaris and the liquidity of its partners, though, only then do you have my blessing to bet on the stock at these depths.

While there's potentially a multitude of upside in a bull-case scenario, I remain on the sidelines because there are just too many uncertainties with the coronavirus crisis for me to conclude whether the name is actually undervalued here.

Magna International

Magna is an auto part maker that I can't seem to get behind as we're propelled into a recession that could rival that of the Financial Crisis. The bulls argue that peak auto is already behind us and a majority of the damage is already baked into the stock here.

Given the secular headwinds facing the auto sector (with the rise of ride sharing that could weigh on long-term demand), though, I don't think the next cyclical upswing will be as pronounced as it's been in the past.

That said, Magna stock certainly looks dirt-cheap at 1.3 times book. But that doesn't mean it can't get much cheaper, as the lights dim on the economy. The company may have a stellar liquidity and solvency position. Still, unless you see a V-shaped economic recovery coming alongside a pick-up in auto demand, Magna may prove to be too risky to own at this juncture.

You don't need to be a hero with the name to do well on the back of the next bull market. Although excess upside exists with the cyclical play, so too does excess downside if the economic wound from this pandemic isn't quick to heal.

CATEGORY

1. Coronavirus
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TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:AD.UN (Alaris Equity Partners Income Trust)
3. TSX:MG (Magna International Inc.)

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