TSX Stocks: 2 OVERSOLD Canadian Giants I'd Avoid

Description

Markets have been brutally volatile this year. **TSX** stocks on average have surged more than 40% in the last four months, marking one of the best recoveries of all time. However, economic worries amid the pandemic continue to haunt investors and make them skeptical of a recovery.

The recent volatility has pushed some Canadian giants in an oversold zone. A momentum oscillator called Relative Strength Index (RSI) takes values from 0 to 100. Stocks with RSI below 30 are considered oversold, while those above 70 are considered overbought.

Notably, an RSI at extremes indicates a looming reversal in the stock's direction. Even if this indicator suggests a recovery in these TSX stocks, I would rather happily avoid them. Let's see why.

Top TSX stocks: BlackBerry

After a steady recovery post-COVID-19 crash, **BlackBerry** (TSX:BB)(NYSE:BB) stock yet again witnessed a steady decline since last month. It has lost 26% so far this year, notably outperforming TSX stocks at large.

The recent transformation in BlackBerry, from smartphone business to an enterprise software company, brought a much-needed revenue growth. The company reported a soothing top-line growth of 20% year over year for the fiscal year ended February 2020. This was particularly notable given the declining top-line streak in the earlier quarters.

However, despite the recent green shoots, what might concern BlackBerry investors is its declining margins. In its fourth quarter of fiscal 2019, it reported a gross profit margin of 82%, which fell to 71% in the recently reported quarter.

In addition, the pandemic might impact corporate investments, further affecting the enterprise software company. Analysts expect a significant dent on BlackBerry's profits for the fiscal year 2021.

For investors, business uncertainty amid the pandemic and expensive stock valuation make it a risky bet at the moment.

Top TSX stocks: Air Canada

Air Canada (TSX:AC) is among the worst-hit Canadian giants amid the COVID-19 pandemic. The stock has lost two-thirds of its value this year and is currently trading close to an oversold zone.

Subdued air travel demand and high cash burn are significantly squeezing Air Canada. Even if economies are gradually re-opening, fear and uncertainty continue to dominate flyers.

Air Canada expects in three years' time to reach air travel demand to its pre-pandemic levels. That means declining revenues, continued losses, and ultimately a weaker market performance, at least in short to intermediate term.

The country's biggest airline has managed to raise capital quite a few times in the last few months, which will likely help it weather the crisis. However, travel restrictions lasting longer than expected could notably alter the case.

After a poor show in the first quarter, Air Canada's second-quarter earnings are expected to be a lot gloomier. A sustained weaker quarterly performance and a balance sheet stress could further weigh on the stock in the short term.

Interestingly, Air Canada's leading market share, fleet size and scale will likely support a relatively faster recovery once this pandemic wanes. However, macro challenges will continue to dominate in the near term and make it a speculative bet.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks
4. Top TSX Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:AC (Air Canada)
3. TSX:BB (BlackBerry)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred

5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Tech Stocks
4. Top TSX Stocks

Tags

1. Editor's Choice

Date
2025/08/28
Date Created
2020/07/15
Author
vinitkularni20