2 Risky Stocks to Stay Far Away From!

Description

With the COVID-19 pandemic still threatening businesses and the economy as a whole, investors need to be careful when deciding which stocks to buy. Retail, in particular, is an area where there's considerable risk as the longer that stores are operating at reduced capacities and people are cutting back spending amid a recession, it's inevitable that investors will continue to hear about new bankruptcies in the industry.

The two companies listed below may not necessarily go out of business anytime soon, but they're still not safe investments to be holding right now:

Canadian Tire

Canadian Tire (TSX:CTC.A) has been a staple in the Canadian economy and a popular stop for consumers both young and old. But the company's been tested during the pandemic, with sales declining by more than 14% year over year in its most recent quarterly results, to a little under $3.2 billion. And don't forget, that's with those results getting a boost from the Party City acquisition.

Sales from the party store weren't present in the company's financials a year ago. But despite the modest drop in revenue, the company's profits still tanked; Canadian Tire reported net income of just $2.3 million, barely staying in the black. A year ago, It generated $203.8 million in profit.

A big reason for the company's smaller profit was that its gross margins declined slightly, from 31% to just under 30%. It may seem nominal but when its profit margin was only 5.5% a year ago, even a small percentage at the top can make a big difference further down the company's results.

Year to date, shares of Canadian Tire are down around 8%, worse than the **TSX**'s 3% decline thus far. Although the stock's trading at only 11 times earnings and less than two times its book value, that's not enough to make it a good buy. There's simply too much risk here.

Canada Goose

Canada Goose Holdings Inc (TSX:GOOS)(NYSE:GOOS) is coming off an even worse quarter than Canadian Tire. In its most recent results, which were up until the end of June, it recorded revenue of $26.1 million — down from $71.1 million in the prior-year period. Its net loss of $50.1 million was also up from the $29.4 loss it incurred during the same quarter a year ago.

Even the company's direct-to-consumer (DTC) segment struggled to make up for store closures. DTC sales were just $10.4 million in Q1 compared to $34.8 million a year ago. They also made up a smaller portion of the company's overall sales — 40% versus 49% in the prior-year period. This could be a sign that the company's expensive clothing is more of a factor in the drop in revenue than just store closures.

And with the economy in the midst of a recession and people out of work, benefits payments potentially coming to an end while deferrals are expiring, things could get a lot worse before they get better. In the meantime, a company like Canada Goose which sells high-priced apparel could continue to see its sales suffer as consumers look for more cost-efficient ways to trim their budgets.

Year to date, shares of Canada Goose are down 35% and it trades at more than 24 times earnings.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:GOOS (Canada Goose)

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djagielski