Don’t Buy! 2 Stocks to Avoid in This Pandemic-Plagued Environment

Description

The coronavirus crisis decimated industries while mostly sparing others. Heck, some firms even benefited from profound pandemic tailwinds and will continue to do so as long as the insidious coronavirus is still out there. There’s no denying the broader economic damage that’s already been done. While there may be deep value to be had within certain hard-hit industries, it’s difficult to prove their undervaluation here. If this pandemic were to drag on for several more years, some beaten-up stocks might actually be overvalued here.

Remember, just because a stock is “cheap” based on traditional valuation metrics doesn’t mean it’s undervalued. This piece will look at two stocks that I personally wouldn’t buy, as coronavirus disruptions could weigh on the underlying firm’s profitability numbers for far longer than most may expect.

BCE

With a juicy 6% dividend yield, it’s tough to pass up on **BCE** (TSX:BCE)(NYSE:BCE) stock here. The Canadian telecom behemoth will be a beneficiary of the 5G boom over the next several years, and there’s a chance that the firm’s stagnant growth could get an uptick, as consumers seek to embrace the next generation in telecom tech.

With shares of BCE trading at 2.1 times sales and three times book value, the name looks like a steal, especially when you consider the well-covered dividend and the relatively resilient cash flow stream. While a potential margin boost as a result of 5G is something to get excited about, I warned investors that the economic disruption caused by the COVID-19 crisis could delay the embracement of 5G by some amount of time. For longer-term income investors on the hunt for a huge payout, this is less of an issue. For younger investors, though, there are far timelier opportunities out there, as BCE is likely to continue feeling the COVID-19 impact until a vaccine can be administered to the masses.

While BCE may have a pretty resilient cash flow stream, shut-in Canadians will be using less data with minimal roaming. That means lower average revenues per user (ARPU) should be expected through this pandemic for BCE and its Big Three peers. To make matters worse, belt-tightening Canadian consumers are at risk of ditching BCE for **Shaw Communications** and its latest Shaw Mobile offering, which is the perfect cost-saving solution for bundlers looking to slash their monthly budgets to the bone.

Yes, 5G is a long-term tailwind for a BCE. But the short- to medium-term headwinds (COVID-19 and fiercer competition), I believe, vastly overpowers it. As such, investors should demand a greater margin of safety with the name, which will remain under pressure for the duration of this pandemic.

Sun Life Financial

Sun Life Financial (TSX:SLF)(NYSE:SLF) is another Canadian blue chip that's taken a hit amid the pandemic. The top-tier life insurer has seen its business bounce back modestly in the second quarter. Still, with a second wave and a potentially long-lived coronavirus recession on the horizon, Sun Life could be at risk of retreating viciously once again.

Insurance products are marketed as "must-haves," but through the eyes of affected consumers, they're actually more of a "nice-to-have." Now, Sun Life is one of the better insurers to navigate through this crisis, but with shares trading at 1.4 times book value, I'd argue that there are far better value opportunities out there at this juncture. Many of Sun Life's peers trade at a considerable discount to book and may offer more upside for those seeking deep value in the battered insurance space.

While Sun Life is a premier player, I don't think I'd be willing to pay up given the insurer is likely to feel mounting pressures, as this crisis worsens into the year's end.

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