



2 OVERVALUED TSX Stocks to Avoid Like the Plague This Week

Description

Some of the TSX stocks recently went far ahead amid the rally driven by U.S. elections. While Joe Biden's win is undoubtedly positive for some portions of the market, others might revert to lower levels after the election rally subsides.

Aurora Cannabis

Joe Biden entering the White House is indeed a positive move for the cannabis sector, at least for now, because of his agenda to legalize it. This boosted the entire industry, with **Aurora Cannabis** ([TSX:ACB](#))(NYSE:ACB) skyrocketing 105% last week.

However, I think market participants got a little too optimistic over this pot stock last week. Financial performance still does not justify the current stock price. It is still far from stable earnings, and its revenue growth is also a concern. After the recent surge, Aurora Cannabis stock is trading at seven times its forward sales estimates. This looks extremely overvalued compared to the industry average.

Aurora Cannabis will report its quarterly results for the first quarter of fiscal 2021 on November 9. Analysts estimate around \$64 million in revenues for the quarter ended September 30, 2020. This represents a 31% drop against its revenues in the year-ago quarter.

Even if the recent president-elect supports the marijuana industry legalization, it will likely take years to fully open up the market. Cannabis players like Aurora will have to tackle grave challenges like the dominating black market and high cash burn rate till then.

Pan American Silver

Along with tech, Canadian mining stocks have been on a roll this year. Shares of the top silver producer **Pan American Silver** ([TSX:PAAS](#))(NASDAQ:PAAS) have soared a notable 110% in the last 12 months. But I think they are nearing the peak and could have a limited upside from here.

Pan American Silver is an \$11 billion company that engages in the production of silver, gold, and other base metals. It is the second-biggest silver producer and has the biggest silver reserves globally.

Its production has been significantly hampered this year due to the pandemic. In the third quarter of 2020, the company [reported](#) an almost 40% decline in silver production compared to Q3 2019.

Precious metal prices have been soaring this year amid a slow-but-stable economic recovery and as investors switched to the traditional safe haven. However, [gold might outperform](#) silver in the next few months amid the second wave of the virus outbreak and its perceived value for safety. Also silver is an industrial metal, it has a higher correlation with economic cycles, which makes it a comparatively riskier bet.

Pan American Silver stock is currently trading at a price to earnings valuation of 80 times, which is way above its historical average. The strength in precious metals could certainly keep the rally going. However, a minor pullback might see an exaggerated impact on the PAAS stock.

As U.S. elections are over, the next big driver for TSX stocks will be their quarterly earnings. And based on their gloomy earnings and overvalued stocks, Aurora and Pan American Silver are the stocks to avoid like the plague in the short term.

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2. NYSE:PAAS (Pan American Silver)
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4. TSX:PAAS (Pan American Silver Corp.)

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