SELL ALERT: I'd Avoid These 2 Stocks!

Description

Every bull market run like the one we've seen can create scenarios where stocks get vastly overvalued. After all, a rising tide lifts all boats. There are a few unique companies that have seen their stock prices rise meaningfully of late that have done so as a result of the exuberance of the market today.

Here are the top two companies I'd suggest Foolish readers be wary of today.

Cineplex

Ah, the good old movie theatre. We all have nostalgic memories of that first date, or seeing that particular blockbuster with an awesome cinematic experience. Given how pent-up many of us feel right now with the pandemic, it may seem like a great idea to bet on the movie theatre business. After all, when this is all over and vaccines save the day (hopefully soon), we'll all want to catch a movie. Right?

This is where companies like **Cineplex Inc.** (TSX:CGX) will have trouble. The rebound play in this sector I think is overblown. The attendance declines Cineplex was seeing prior to the pandemic are indicative of a deeper, structural problem in this sector. Streaming platforms have upped their game. Accordingly, major Hollywood blockbusters have been released on demand and on various streaming platforms. Many of these releases saw a tremendous amount of success.

At this point in time, I don't see a feasible pathway for growth back to profitability for Cineplex. The company is heavily levered due to poorly timed acquisitions made prior to the pandemic. These acquisitions were done in part to diversify the company's overall revenue streams, as a result of aforementioned attendance declines. Unfortunately for Cineplex, these experiential businesses are all likely in secular decline. This is a stock I'd definitely encourage readers to avoid in terms of rebound plays right now.

Cargojet

Investing in any company with a monopoly is generally a good idea. In the case of **Cargojet** (TSX:CJT), this is precisely the only tailwind behind this stock right now.

Yes, this is a company with an effective monopoly on the air freight business in Canada. Cargojet has done a fantastic job of cornering the market domestically, and has been handsomely rewarded with a valuation multiple that reflects this.

That said, there's a significant amount of downside on the horizon with this stock. This is a capital-intensive business with poor margins. I think there are many companies out there with better management teams. There's much to like as far as the company's fundamentals go, which is concerning to me. Any company with negative cash flow and earnings, along with high levels of leverage and little in the way of capital reserves, is a highly sensitive one to any headwind that may materialize.

An investment from **Amazon** and a multi-year contract with the e-commerce giant may have assuaged concerns about Amazon setting up its own logistics in Canada. That said, over the long-term, we've seen Amazon develop its own supply chain in the U.S., losing reliance on third-party carriers. Accordingly, to think this can't or won't happen in Canada is foolish, in my view.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:CGX (Cineplex Inc.)
3. TSX:CJT (Cargojet Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Date
2025/08/21
Date Created
2021/01/21

Author
chrismacdonald