2 High-Flying Stocks to Avoid Until They Stabilize

Description

Are you toying with the idea of buying high-flying stocks as the TSX continues its surge? Two unexpected names are among the top performers in May 2021 and are attracting investors' attention.

Cineplex (TSX:CGX) and **Spin Master** (TSX:TOY) are the surprise packages, given their stellar stock market performances. However, I wouldn't rush into taking positions in either. In my view, the respective businesses aren't stable enough to sustain the rally. Also, a slower economic recovery could cause the prices to tank.

Cloud of uncertainty

Cineplex shares are on the rebound following a 72.5% loss in 2020. As of May 10, 2021, the share price is $12.52 — or a 35% year-to-date gain. The $777.73 million theatre chain operator isn't entirely out of the woods yet. In Q1 2021 (quarter ended March 31, 2021), theatre attendance dropped 96.1% versus Q1 2020. The coronavirus breakout happened in mid-March 2020.

Its total revenue fell 85.4%, while net loss improved to $89.7 million from $178.4 million. During the quarter, the average monthly cash burn was $26.9 million. The best management can do to arrest the bleeding was to remain prudent in managing costs.

Ellis Jacob, president & CEO, Cineplex, said, "Throughout the pandemic, Cineplex has controlled costs, solidified its financial and liquidity position." He added that the company is prepared to capitalize on the pent-up demand for social experiences when the government lifts the restrictions and life returns to normal.

Most Cineplex theatres remain closed or under strict operating restrictions. The fourth wave of COVID-19 is the headwind. It could dampen management's optimism to welcome back guests even with limited reopening.

Unbelievable turnaround

Spin Master is a revelation considering its 43.6% year-to-date gain. In 2020, TOY investors lost 26.6%. The $4.21 billion global children's entertainment company recently reported glowing numbers. For Q1 2021 (quarter ended March 31, 2021), the total revenue growth from Q1 2020 was 39.3%.

Most notably, Spin Master's net income was US$3.2 million versus the US$26.7 million net loss in the same period last year. However, cash on hand at the quarter's end was over $260 million. Management believes it would allow them to increase opportunities to leverage Spin Master's diverse and global platform for organic growth and acquisitions.

Management expects gross product sales to increase high single digits in 2021 compared to 2020. For total revenue, the company predicts the increase to be in the low double digits. While it appears that it's business as usual for the dominant player in the toy industry, I think the expectations are lofty. Revenue growth could slow down until year-end.

Meanwhile, driving long-term growth is Spin Master's ongoing concern. Among its principal strategies are to increase international sales in developed and emerging markets and establish a leading position in digital games. The most noteworthy is the development of evergreen global entertainment franchises.

Hopeful with apprehension

My wish for Cineplex and Spin Master is for their businesses to improve in 2021 and meet their financial goals. Likewise, I hope both stocks will reward investors with handsome gains this year. However, I'm not optimistic the companies will end the year with a bang. The odds are not in their favour.

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2. TSX:TOY (Spin Master)

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