2 Stalled-Recovery Stocks to Stay Clear of

Description

There are increasing signs that the market is finally returning to some semblance of its pre-pandemic levels. Most companies have recouped losses from the pandemic-induced selloff last year and are finally investing in growth. But not all stocks have recovered. There are several stalled-recovery stocks on the market that may never return to their former glory.

Here's a look at two such stocks.

What the pandemic couldn't do, streaming will

Just over two years ago, **Cineplex** (TSX:CGX) was viewed as a superb investment option for income- and growth-seeking investors. The company had a juicy monthly dividend and was diversifying away from its over-reliant movie-and-popcorn business.

Fast forward to today, and Cineplex is just a shadow of its former self. The pandemic has forced the entertainment company to make deep cost cuts to remain operational. One such cut was the company's monthly dividend, which was eliminated entirely.

Even Cineplex's efforts at diversification have met obstacles. The company's promising Rec Room concept is an intriguing mix of food and entertainment. Cineplex was aggressively building a network of Rec Room sites across the country prior to the pandemic. As the pandemic discouraged in-person gatherings, that too contributed to the steep losses at Cineplex.

That's not to say that Cineplex didn't already have problems prior to the onset of the pandemic. The movie-and-popcorn model remains under constant threat from the expanding realm of streaming services. Additionally, many of those streaming services now have their own studios to create unique content. That content then becomes an exclusive release on those platforms.

In other words, even when we get to a state of full reopening, Cineplex will have plenty of problems to sort through. Unless you're already invested in the long haul, there are far better options to consider.

How the mighty have fallen…

Another intriguing investment option that continues to confuse investors is **BlackBerry** (TSX:BB)(NYSE:BB), the one-time king of the smartphone market.

Fortunately, BlackBerry no longer sells smartphones directly. Instead, the company has third-party OEMs to develop devices with BlackBerry's name on them. This allows BlackBerry to focus on expanding its cybersecurity business. The company's IoT segment and its links to the autonomous vehicle segment are noteworthy mentions, too.

BlackBerry's QNX system is already powering the infotainment systems in over 195 million vehicles globally. Further to this, BlackBerry is also pursuing and getting design wins from other automobile manufacturers. This means that BlackBerry may finally have a viable approach to getting the growth that investors want to see.

That's assuming those segments can generate a profitable revenue stream.

Execution and realistic expectations have always been an issue at BlackBerry. It's also something that long-time investors seem to forget as time goes on. Where's the bottom-line impact of installing QNX in those 195 million vehicles? Let me try to bring the focus back on the matter by repeating some numbers from the latest quarter.

In that the most recent quarter, revenue dropped US$84 million when compared to last year, coming in at US$175 million. From an earnings standpoint, the company reported a net loss of US$144 million, or US$0.25 per diluted share. Finally, revenue attributed to licensing (i.e., QNX) came in at just US$15 million in the quarter.

Now, keeping those results in mind, let me state that BlackBerry's stock is trading up over 50% year to date. Do you still think that BlackBerry is a good buy and that growth is backed up by anything solid?

I have no doubt that BlackBerry will return to profitability. I just don't think it will happen anytime soon.

Stalled recovery stocks may recover just not right now

No stock is without risk. That being said, the two stocks mentioned above are loaded with risk. Cineplex needs a viable alternative revenue stream to offset theatre losses. BlackBerry has a viable product in its QNX and cybersecurity portfolios that will need time to become profitable

In my opinion, unless you're invested directly in one of those stocks, there are far better options to buy at the moment over these stalled-recovery stocks. In fact, some of them are even highly discounted picks that even offer tasty dividends.

CATEGORY

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3. TSX:CGX (Cineplex Inc.)

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