2 Top TSX Stocks to Remain Cautious of, Despite Their Recent Correction

Description

Not all beaten-down stocks offer value. Some are on a decline for a reason and will fall more. The following two TSX stocks have corrected massively this year. However, they might not recover anytime soon.

Cineplex

Canada's theatre chain giant **Cineplex** (TSX:CGX) has been no different in these uncertain markets. CGX stock has fallen 20% this year, which is in line with TSX stocks at large.

However, if you think this correction and economic re-openings post-pandemic bring an attractive opportunity for CGX, things might not be as smooth. And that's because of Cineplex's bloated balance sheet.

Its debt pile surged, as cash from operations fell drastically during the pandemic. At the end of Q1 2022, it had total debt of $1.9 billion. As the debt increased, its debt-servicing costs also surged, negatively affecting the bottom line. Note that its interest expense has soared by more than 1.5 times in the last 12 months compared to the pre-pandemic period.

So, even if footfall at the theatres revives, and the top line surges in the next few quarters, it could take time for Cineplex to turn that into sustainable profits. High leverage could be a big throne in its recovery going forward.

Apart from debt, CGX does not look attractive from the valuation perspective too, despite the recent correction. Thus, even if broader markets calm a bit from the ongoing turmoil, CGX might not see a meaningful value creation.

Aurora Cannabis

Pot stocks have also been on a tear for a long time now. **Aurora Cannabis** (TSX:ACB)(NASDAQ:ACB

) has dropped 75% this year, underperforming its peers.

Aurora and its investors can't seem to catch a break. The steep challenges have notably weighed on its stock. Declining revenue growth, weaker balance sheet, and waning prospects of U.S. cannabis legalization might continue to dent Aurora's prospects.

In the last 12 months, Aurora reported revenues of $225 million compared to $269 million in the fiscal year 2021. The company has been on a constant cost-cutting streak and recently announced a sale of some of its key facilities.

As we have seen in the past, Aurora might have to dilute more of its equity to fund its operations, hampering existing shareholders. Thus, ACB stock looks like a highly risky bet and could continue to dig deeper.

So, if these TSX stocks do not look attractive, even after the correction, where should investors put their money?

Fortis

Canada's top utility stock **Fortis** (TSX:FTS)(NYSE:FTS) has dropped 10% in the last few weeks. However, driven by its handsome dividends and earnings stability, FTS stock is an appealing bet at the moment.

Considering the uncertain mood of the markets and increasing fears of recession, Fortis could play well in due course. Such defensives stand relatively resilient in economic downturns as well because of their stable business model. In addition, Fortis pays stable dividends that yield 3.5%, which is in line with the broader markets.

FTS stock is relatively less volatile than growth names, which provides relative capital protection. Thus, FTS stock has dropped relatively lower than the above two, and it will likely stay strong in these volatile markets.

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2. NYSE:FTS (Fortis Inc.)
3. TSX:ACB (Aurora Cannabis)
4. TSX:CGX (Cineplex Inc.)
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