Looking for Growth? Avoid These Stocks (For Now)

Description

Picking the right growth stocks for your portfolio can make the difference between retiring early or needing to work well into your golden years. Unfortunately, not all of the great growth stocks are great picks at the moment. Investors looking for growth may fare better if they avoid these stocks.

Here's a look at two growth stocks that are not yet solid buys.

Look at the big picture

Now that the pandemic appears to be coming to an end, some of the hardest-hit businesses are looking toward that long-planned recovery. Among those hardest-hit businesses is **Cineplex** (TSX:CGX).

Pre-pandemic, Cineplex was a completely different company. And while the company did have its issues (more on that in a moment), Cineplex was diversifying itself outside of its core movie-and-popcorn business.

Part of that diversification is the Rec Room business. The large multi-configurable venues provide Cineplex an alternative revenue stream that isn't contingent on Hollywood churning out content.

Now that the businesses are carefully reopening, the Rec Room can begin to take a bigger slice of Cineplex's revenue stream.

That couldn't come at a better time either. During the pandemic, studios began releasing content direct to streaming platforms, bypassing the big screen altogether.

Those new streaming platforms now have dedicated (and huge) production budgets and exclusive release schedules. This lessens the exclusivity of the movie-and-popcorn model, eliminating that defensive appeal Cineplex once boasted.

As of the time of writing, Cineplex is down over 25% year to date. Looking back further, the entertainment company shows a 12% loss over the prior two-year period.

Will Cineplex ever improve?

There's no doubting that Cineplex will improve over its pandemic lows. In the most recent quarter, Cineplex reported massive improvements over the same period last year. By way of example, theatre attendance in the most recent quarter hit 6.6 million patrons. In the same quarter last year, that number stood at just 441,000.

The improved attendance numbers will continue to drive revenue, concessions, and, eventually, earnings up over time.

In short, while Cineplex will continue to improve, at this point the stock may seem far too risky for most investors looking for growth.

Don't be tricked by full planes — yet

The other segment of the market that was deeply impacted by the pandemic was airlines. **Air Canada** (TSX:AC) saw the brunt of that impact, three times over.

Airline travel is a delicate balance of matching resources, demand, and equipment across the globe. To put it another way, for Air Canada to truly recover from its pandemic lows the airline needs *both* its arrival and departure markets to be open, with adequate demand.

That's also not even factoring in the mid to longer-term impact that inflation will have on demand for travel. And finally, there are also rising fuel prices to take into consideration.

But hasn't Air Canada already started to recover? That really depends on how you look at the recovery.

In the most recent quarter, Air Canada posted revenues of $3.981 billion. This was a five-fold increase over the same period last year. The company also managed to generate a free cash flow of $441 million, reflecting a whopping $2.1 billion improvement.

In terms of traffic, the airline moved over 9.1 million passengers, in the quarter, an improvement of over eight million passengers over last year.

Overall, the company still posted a loss for the quarter of $253 million, but the loss was the narrowest since the pandemic started. To put that into perspective, in the same period last year that loss was a whopping $1.133 billion.

In short, Air Canada is improving and will continue to improve further. Unfortunately, the stock is still far too risky for most investors looking for growth right now.

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