Keep Avoiding These 2 Stocks

Description

In June, I strongly suggested to readers that they avoid investing in two companies. Both companies are in industries that have seen a very strong pullback in terms of revenue because of the pandemic. Many retail investors were pouring into them during the market crash, expecting a strong recovery. However, I believed at the time that the end of red days was nowhere near close. Today, I still hold that belief. Which two companies should you avoid?

Nothing good to see here

As far as dying businesses go, the movie theatre industry should fall right at the top of the list. Although many still frequent these businesses, many have been choosing to find other sources of entertainment in recent years. The biggest threat to the movie theatre industry has come from streaming services. Consumers have been able to watch movies and TV shows from the comfort of their own homes instead of having to share a large room with strangers.

Factor in a global pandemic that saw the entire world shut down, and movie theatres now have a lot more problems than ever before. It was for these reasons, that I initially suggested investors to stay away from **Cineplex** (TSX:CGX). A very well-known company in Canada, Cineplex has been the leader in providing entertainment to the masses. However, I believe that the pandemic highlights just how little its stock has to offer to investors.

The company's trailing 12-month revenue is a decrease on its total revenue from the most recent fiscal year. The company has generated $1.2 billion in revenue over the past 12 months compared to $1.7 billion in 2019. This is also reflected in Cineplex's first year of negative net income in years. Over the past 12 months, the company has reported a net loss of $260 million.

At the time my previous article was published, Cineplex stock had plummeted 70.3% from its pre-lockdown highs. Since then, the stock has fallen an additional 8.06%. I do not see any situation where Cineplex stock recovers to its previous levels in the next couple years.

This stock is flying low

The second stock is a company I considered investing in back in October 2019. The reason I found it interesting is because of its importance within the Canadian economy. Millions of people require air travel each year, and **Air Canada** (TSX:AC) is the bona fide leader in this industry within Canada. However, ever since the outbreak of the pandemic, countries have restricted cross-border travel, and some provinces have even banned visitors from other areas in Canada.

Air Canada's annual revenue has been growing each year, which is what interested me last year. However, the pandemic has resulted in its first decrease in annual revenue in a long time. The company's trailing 12-month revenue is slightly higher than the revenue Air Canada reported for fiscal year 2018.

Even with the incredible decrease in air travel, Air Canada has been able to post a positive net income over the past 12 months. Much of this, however, comes from pre-pandemic activity and could appear much worse by the end of the year. As it stands, Air Canada has generated a net income of $82 million over the past 12 months — significantly lower than its $1.5 billion of net income from the year prior.

When I first suggested to investors avoid the company, Air Canada stock had fallen 62.85% from its pre-pandemic highs. This was also 66.39% from its highs this year. Since then, the stock has fallen an additional 7.44%. I also do not see this company rebounding to its previous highs in the next couple years.

Foolish takeaway

As you can see, the companies I've suggested investors avoid have not shown any signs of recovery. This comes at a time when many industries are starting to recover from the effects of the market crash. I believe these two companies will continue to trade at these depressed levels for the next couple years. I would still choose to avoid these two companies at all costs.

CATEGORY

1. Investing

POST TAG

1. air canada
2. canada
3. Cineplex
4. Editor's Choice
5. investing
6. market
7. market crash
8. recession
9. Stocks
10. value investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Business Insider
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