Contrarian Investors: 2 Cheap Stocks for a TFSA Pension Fund

Description

The rally in the Canadian and U.S. markets this year has wiped out many of the deals that were previously available, but some sectors remain under pressure and are starting to appear cheap.

Buying good companies when they are out of favour takes some courage, but the move can result in substantial long-term gains when the situation changes.

Let's take a look at two stocks that might be interesting picks right now for a TFSA retirement fund.

Nutrien

Nutrien (TSX:NTR)(NYSE:NTR) was formed at the beginning of 2018 through the merger of Potash Corp. and Agrium.

The new company is a global leader in the production of potash and has strong wholesale phosphate and nitrogen operations. The three products are key crop nutrients used by growers around the world to improve yields. Nutrien also has a large retail division that supplies more than 500,000 farmers with seed and crop protection products.

Technological advancements are helping the farming sector improve efficiencies and Nutrien is building its digital business through acquisitions. The company already has strong relationships with farmers and can provide digital solutions to help its clients manage their businesses.

Unusual weather patterns in 2019 put a dent in potash demand and that has led to temporary shutdowns at some of Nutrien's facilities. As a result, the company's 2019 results are going to be weaker than originally expected, which has led to a slide in the company's share price from $72 in July to the current price near $61.

Commodity markets undergo cycles, and Nutrien anticipates a rebound in sales in 2020. Customers are working through stockpiles, but will need to purchase more product in the coming year.

In the meantime, investors can pick up a solid 3.9% dividend yield.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is Canada's leading independent natural gas producer. The company also has oil sands, heavy oil, light oil, natural gas liquids, and offshore oil facilities.

The diversified resource base gives CNRL the flexibility to take advantage of changes in market prices to ensure it receives the best return on its capital investments. When times are tough in one segment, management simply shifts funds to other development options in the portfolio.

A strong balance sheet is essential for survival in the energy patch and CNRL is in good financial shape, enabling the company to buy assets that come up for sale, especially when they're located close to existing operations and offer strong synergies.

CNRL raised the dividend by 12% in 2019 and does a good job of using free cash flow to repurchase shares and pay down debt. Investors who buy the stock today can pick up a 4% yield.

At $37.50 per share at writing, CNRL appears cheap. The stock traded as high as $48 in 2018, so there's decent upside potential when oil prices rally.

The bottom line

Nutrien and CNRL are leaders in their respective industries and should be solid buy-and-hold picks for a TFSA retirement fund. These stocks appear oversold right now and could deliver big gains for contrarian investors willing to wait for market conditions to improve.

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aswalker