Canadian Oil and Airline Stocks Are a Long-Term Buy for Contrarians

Description

The thesis for buying beaten-up names is strong right now. Canadian oil and airline stocks have been especially savaged. These sectors are extremely cheap, even with the two-day rally factored in. Some great names are on sale, from **Air Canada** to **Suncor**. These are top drawer, blue-chips that belong on every Canadian investor's watch-list.

The sale is just beginning for TSX oil and airline stocks

Some Canadian oil stocks have been crushed by the coronavirus crash. Look at **Vermilion Energy**, which has lost 84% in the past four weeks. That's pushed its trailing annual dividend yield to 89%.

But one of the reasons why Vermilion has crashed so hard is that the company slashed its dividend. Pundits have long urged caution about this name's reliability for passive income.

Vermilion is bearish on mid-term, however, per a statement of March 16. "While we continue to believe the long-term fundamentals for the oil and gas industry are sound and will lead to higher prices in the future, we cannot predict how long the impact from COVID-19 and the OPEC+ price war will continue." Oil bulls may want to apply this logic to other names in the hydrocarbon sector.

Air Canada is among the best damaged TSX oil and airline stocks. It's long been a favourite of analysts and investors alike. The nation's flag-carrying name doesn't fit a dividend investing thesis.

However, the stock bounced 30% this week, bringing it 74% up from its 52-week low. The momentum here is astounding. A COVID-19 vaccine rally could substantially reward Air Canada investors who buy on weakness.

Buy Canadian oil and airline stocks in stages

The Motley Fool recommends four key tips for investing during a bear market. In essence they are: Buy "forever" stocks, or at least stocks you can hold for many years. Don't try to time the market during such periods of high uncertainty and dangerous volatility, though.

Get invested in dividend stocks that support a multi-year passive income strategy and supplement your stock portfolio with the best-rated bonds.

Investors should also be prepared for dividends to be reduced. Would you still hold certain income stocks if they didn't pay dividends for a while? Buy into weakness in stages. The best Canadian stocks may be recession-resistant long term, but buy slowly.

Look at the way Suncor rallied this week. Its share price shot up by an incredible 26%, which tells would-be investors sitting on the hydrocarbons fence one key thing, namely that Suncor's performance during the coronavirus crash was more about the market than the sector.

Why? Because if its performance had been solely about oil prices, that stock would still be deep in the red. It may have rallied this week, but not by 26%.

The bottom line

The best Canadian oil and airline stocks could outrun a coronavirus recession. But value investors and contrarians alike shouldn't back up the truck — at least, not yet.

We haven't reached the bottom yet. Buy blue-chip stocks like Air Canada and Suncor incrementally on further weakness. This way, you'll build increasing positions in the strongest names with decreasing outlay.

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