Market Rally: 2 TSX Stocks to Buy on the Rebound

Description

As the economy looks to heal from the coronavirus pandemic, investors should look to some of the harder-hit areas of the market to play the market rally.

Many stocks have already fully recovered. With the **TSX Index** off just 15% from its pre-pandemic highs, it may seem as though all of the great bargains are gone. That's just simply not the case, though, especially with some of the harder-hit areas of the market, which may still be trading at market prices well below their true worth.

This piece will have a look at two Canadian stocks that I believe could have the most room to run amid the market rally.

CAE: A way to ride an airline market rally

CAE (TSX:CAE)(NYSE:CAE) is the best airline stock that's not actually an airline. The company provides training for the civil aviation, defence, and healthcare market, with various flight simulators and modelling technologies.

The civil aviation division is under a tremendous amount of pressure, and that's a huge reason why CAE stock has fallen so hard amid the coronavirus pandemic. CAE's fate is tied to the airlines, and while it could take more than a year for air travel to return to normalcy, I think spending on essential training products and services will recover before the industry fully recovers.

At the time of writing, shares of CAE are down 43% from its highs after posting a slight recovery (alongside the market rally) from the 65% peak-to-trough coronavirus-induced decline. I view the crash in the stock as overblown and think there's still compelling value to be had in an otherwise pretty well-run company.

CAE stock trades at 2.5 times book, which is close the lowest it's been in recent memory. The company just took the axe to its dividend and is in a decent financial position to ride out continued turbulence in the airline industry. Buy the stock if you're bullish on the economy's ability to recover from the coronavirus and think the market rally is sustainable.

NFI Group: A potential multi-bagger on a market rally

NFI Group (TSX:NFI) is in the cyclical business of manufacturing buses, among other pricey, long-lived transportation assets. It's precisely the type of company you'd want to avoid heading into what could be a pronounced recession. But as someone wise once said, if the price is right, any stock, even those of less-than-stellar quality, can become buys. And after NFI's unprecedented sell-off, I view the stock as having a relative margin of safety, given it seems like more than just a recession is baked into the valuation amid this market rally.

NFI deserved to get hit on the coronavirus crash. It deserved to get walloped given its cyclical nature. But did it deserve to lose over 72% of its value in just a matter of weeks? I certainly don't think so. The company isn't just a bankruptcy that's waiting to happen. The company's liquidity position is a tad concerning given the high 1.5 debt-to-equity ratio and the $1.2 billion in total debt sitting on the balance sheet of the $1 billion market cap company.

Facilities are being shut down for longer, and while it's likely that NFI's bounce will lag that of its less-cyclical peers, I think there's deep value to be had in the name with shares trading at 0.84 times book.

Foolish takeaway

Both battered stocks are dirt cheap, because there is baggage that goes beyond the recent bout of coronavirus-driven economic weakness. But if you're young and have a long enough time horizon, now may be a great time to start nibbling into a full position in either name while they're down if you're looking to play the market rally.

Stay hungry. Stay Foolish.

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