



COVID-19: These Hard-Hit TSX Stocks Could Make You a Fortune in 10 Years

Description

You've probably heard that COVID-19 will [change](#) how the most-affected industries will conduct business forever. That COVID-19 will profoundly and permanently change the way things are done.

COVID-19 will undoubtedly change how some firms conduct their business. For example, some firms may opt to ditch office spaces forever. But I believe that consumer habits will always eventually revert toward the mean. So-called COVID-19-induced permanent changes to industries will not be nearly as severe or long-lasting as some are predicting.

Bears: COVID-19 has changed some industries forever

"The world, as we know it, has changed forever" makes for some pretty catchy headlines. But in the grander scheme of things, consumer behaviour tends to revert to the mean over prolonged periods.

Even the [air travel industry](#), I believe, will eventually recover. It will likely take many years and a handful of bankruptcies before pre-pandemic levels are seen. But eventually, people will lose their fear of contracting COVID-19 on a flight, and they will travel again.

Other industries, such as restaurants and office real estate, I believe, could return to normal a lot sooner. That makes them worthy investments for contrarians seeking deep value.

Too much pessimism in hard-hit industries

Consider **H&R REIT** ([TSX:HR.UN](#)), a diversified REIT with considerable exposure to the retail and office real estate sub-industries. Under pressure, the REIT recently took the axe to its distribution. Or **Restaurant Brands International** ([TSX:QSR](#))([NYSE:QSR](#)), the fast-food kingpin that's seen sales plunge amid the pandemic.

H&R REIT lost nearly 65% of its value the crash, as investors were quick to rid their portfolios of investments at 'ground zero' of the coronavirus crisis. The thesis of many bears is that the 'work-from-

home' trend will lead firms to not renew their leases and operate completely (or mostly) in the digital realm.

Amid the pandemic, it may feel as though offices are going the way of the dodo bird, but that's simply not the case. Many firms are discovering that productivity is still high with a workforce that's primarily working for home. But that doesn't mean firms are prepared to give up on the social benefits that come with an office. Some firms can't afford to lose the intangible value they get from shared spaces.

Looking ahead

Ten years from now, when we look back on the COVID-19 pandemic, I believe many will be headed back to the office. Leases will be renewed, and office-weighted REITs, including H&R REIT, will not suffer from a severe and permanent reduction in longer-term cash flows.

There will be intermediate-term pressures for the office (and retail) REITs, as COVID-19 propels us into a severe recession. Still, I suspect things will gradually return to pre-pandemic levels. When they do, investors with the confidence to go against the grain will be the ones that will be most rewarded.

Similarly, I believe that consumers will eventually be dining in restaurants again. Restaurant Brands will be a major beneficiary when the "fried chicken wars" pick up where they left off before the pandemic. Ordering take-out is convenient, but it's getting old. Dining in is fun, and there's a social aspect that I believe will never be lost.

Humans are social creatures. As such, I'm not buying the bear case that certain hard-hit industries (office and restaurants) will be profoundly changed forever. I'm more inclined to bet on a longer-term reversion to the mean. Significant changes to consumer behaviour tend to be more gradual.

Foolish takeaway

For those with the patience to wait 10 years, there's substantial value to be had with some of the names that have been most impacted by COVID-19. The road to recovery will be long and volatile, but if you've got the time, now is looking like a good time to put on your contrarian hat.

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1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:HR.UN (H&R Real Estate Investment Trust)
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Date

2025/08/24

Date Created

2020/05/25

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