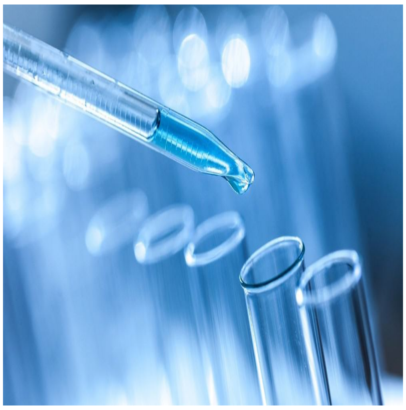

# COVID-19: 2 Stocks That Could Skyrocket on a Vaccine

## Description

The COVID-19 crisis an unprecedented socio-economic nightmare that's wreaked havoc on various sectors of the world economy.



While the stock market has mostly moved on from the crisis, investors must not forget that we're nowhere near out of the woods yet, at least as far as the economy is concerned. Many companies within the hardest-hit industries aren't going to make it out of this pandemic alive. And while it may seem prudent to shun the COVID-hit industries, like restaurants, office and retail real estate, travel, energy, I'd argue that you'd be leaving a considerable amount of gains on the table should we be due for a timely advent of an effective coronavirus vaccine.

Now, I'm not suggesting that you pile into the hardest-hit areas of the economy with the assumption that we'll have an effective vaccine approved and readily available for broader distribution by year end. Instead, I'd encourage you to take calculated risks with a portion of your portfolio. In prior pieces, I'd highlighted the potential effectiveness of a COVID-19 "barbell" strategy, which involves the balancing of risky COVID-hit stocks and stocks immune to COVID-19.

The "all-weather" approach would be a play on both a timely vaccine (the bull case) and a severely extended pandemic (the bear case). Moreover, I'd take it a step further by urging investors to pay extra attention to the state of the balance sheet and the "COVID-19 impactedness" of a firm's operating cash flows under a bear-case scenario.

If you've got a financially flexible firm that's destined to survive and is showing no evidence of significant cash bleed, you may have a stock that could survive long enough to see better days at the other end of this pandemic. Now, investing in COVID-hit stocks isn't for the faint of heart. And you shouldn't overexpose yourself if you don't have a proper defensive positioning should this pandemic last longer than most believe.

While it is harder to value COVID-hit stocks in this unprecedentedly uncertain environment, I would have a close look at **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) and **H&R REIT** ( TSX:HR.UN) at this market crossroads.

Billionaire activist investor Bill Ackman believes that we're in for a "real recovery" in the second half of 2021 and that restaurants (QSR is owned by Ackman's hedge fund Pershing Square Holdings) as well as offices are a compelling contrarian place to be right now.

## H&R REIT

Offices are due to take a long-lasting hit as a result of COVID-19, in the form of lower rents and the increased need for renovations (perhaps offices will transform into lofts?), but they will "survive," according to Ackman. And given the damage already done to an office-weighted REIT like H&R, I think investors are severely undervaluing the REIT's impressive asset base.

"I think office survives. I do think there will be certain office space will be outmoded, sort of the cramped, low-ceiling, old-fashion office space probably needs to be torn down and rebuilt," said Ackman.



H&R may be overexposed to offices and retail properties, but it'd be foolish (that's a lower-case *f*) to assume that just because it's on the receiving end that its assets are rancid and are not capable of bouncing back in a return to normalcy.

H&R already cut its distribution, but the new one is sustainable, with a yield currently just shy of 7%. If you're like Ackman and think we'll see some reversion to the mean after this pandemic, H&R is a bargain right here and now.

## Restaurant Brands International

Restaurant Brands International is going to be tough to hold over the next year. But once people get vaccinated, with dining rooms opening up around the world at full capacity, QSR is going to pick up where it left off in 2019, riding high on the success of new menu items, including Popeyes's legendary chicken sandwich and Burger King's Impossible Whopper.

In the meantime, Restaurant Brands has more than enough financial flexibility to survive this crisis, even if a second wave of COVID-19 were to hit this fall. And once this pandemic concludes, it's possible that we'll be dragged into a prolonged recession, which bodes well for fast-food companies like Restaurant Brands that sell what economists refer to as "inferior" goods.

**CATEGORY**

1. Coronavirus
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**TICKERS GLOBAL**

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

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