Value Rotation: 2 Cheap TSX Stocks That Could Soar

Description

The spread between growth and value stocks has widened substantially in recent months. While pandemic-proof, high-growth tech stocks rightfully deserve to trade at a premium relative to the more vulnerable value stocks amid COVID-19 disruptions, it's unclear how much of a premium relative to value they're deserving of.

What worked in the first half of 2020 may not work so well in the latter half. And if we're due for a growth-to-value rotation, it may be worthwhile the get ahead of the pack by taking profits off your biggest tech winners and putting it towards the following beaten-up value stocks.

Bank of Montreal

The **TSX Index** has mostly healed from the COVID-19-driven sell-off, but Canadian bank stocks are still badly bruised. **Bank of Montreal** (TSX:BMO)(NYSE:BMO) is a premier bank stock that took on a brunt of the damage back in February and March, thanks to its less-favourable exposure to some of the areas of the economy that have been hit the hardest by the coronavirus crisis.

BMO may have a bit more exposure to the ailing oil and gas industry, but does the stress-tested, well-capitalized bank deserve to trade at a discount to book value? I don't think so.

BMO has paid a dividend for more than straight 190 years. It's been through more than its fair share of crises and has risen out of them every single time. This crisis is undoubtedly unique and unprecedented, but the same could be said for the many other macro hailstorms that BMO and its peers have navigated through.

At the time of writing, BMO stock trades at a modest 3% discount to book value. With a 5.6%-yielding dividend to collect while you wait for headwinds to fade, I'd say now's a great time to buy before value becomes sexy again.

Canadian Natural Resources

Speaking of the ailing energy sector, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) stock was walloped when the markets crashed earlier this year.

When oil prices went negative for that brief instant, even the highest-quality integrated producers seemed uninvestible. If you went against the grain and scooped up battered shares of CNQ in the depths of the coronavirus crash, you did pretty well, as shares surged around 150% from its March bottom.

The shareholder-friendly management team kept its dividend intact (shares sport a 6.3% yield at the time of writing), and, as a result, shares are starting to pick up traction again with income-focused value hunters.

On Monday, Canadian Natural scooped up a bargain in Painted Poney Energy in a deal worth $461 million. Painted Pony was under an unfathomable amount of stress amid the crisis, and CNQ, I believe, got a steal of a deal. CNQ may have its fair share of long-term debt, but if the tides were to turn on the oil patch sooner rather than later, CNQ is likely to become the undisputed king of the Canadian oil patch if it isn't already.

At the time of writing, CNQ stock trades at a 3% discount to book value and is a must-buy for those seeking deep value in the ailing energy sector.

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