



2 COVID Recovery Stocks to Play a 2nd-Half Rebound

Description

The stock market recovery from the [COVID-19 crisis](#) was almost as unprecedented as the February-March sell-off. The COVID-resilient growth stocks that viewed the pandemic as a tailwind led the upward charge in the last quarter.

As various market indices (the **NASDAQ 100** has already soared to new heights) look to break through their pre-pandemic heights in the second half of the year, investors should look to some of the underperforming COVID recovery plays, which could be poised to [roar higher](#) on positive news of vaccines, treatments, or effective containment through other means.

Indeed, many positive news events could propel the COVID recovery stocks. But one must not assume that we're out of the woods yet. The pandemic could easily worsen and cause another market pullback, so right now, I believe it would be wise to construct a barbell portfolio that plays both extreme outcomes that could arise, as this pandemic looks to drag on into 2021.

The value to be had in some of the COVID recovery plays has the potential to be profound if we are due for the timely advent of an effective COVID-19 vaccine. Of course, the perceived value may prove to be an illusion if we're due for further waves of COVID-induced shutdowns. But over the long term, I think there's real value to be had in some of the battered COVID-hit plays such as **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) and **Restaurant Brands International** ([TSX:QSR](#))([NYSE:QSR](#)), two stocks that have no business trading at today's depths if we are due for an approved vaccine that can eliminate the novel coronavirus within the next two years.

Both firms are well capitalized and will survive this crisis. However, I believe both require further clarity (such as news of a vaccine breakthrough) on this pandemic to skyrocket back to pre-pandemic heights. Fortunately, their valuations are low enough, and their dividends are swollen enough to give long-term investors more than enough incentive to put up with the volatility that'll likely remain until that one breakthrough happens.

Bank of Montreal

Bank of Montreal is a battered bank that saw its loan book take a beating as the pandemic disrupted the financial flexibility of many small- and medium-sized businesses (SMBs). Loan losses have been racking up, and the outlook doesn't look good right now. The headwinds and haze of uncertainty are clouding the long-term outlook, providing an opportunity for investors who want outsized upside as the economy recovers from COVID-19.

Sure, BMO has its fair share of baggage, but you're getting a modest discount to book value and slightly higher yield (5.5%). If a vaccine breakthrough happens, expect BMO to be one of the Canadian banks that will lead the upward charge in the next leg of the market's rally. And if COVID-19 continues plaguing the world past 2022, there could be more downside, but I suspect it will be mostly contained given most of the pessimism is already baked in.

Restaurant Brands International

The restaurant industry took a beating, and Restaurant Brands, the firm behind Burger King, Popeyes, and Tim Hortons, was not spared. Tim Hortons was a major sore spot (again) in the company's latest quarter, as sales continued sinking. COVID-19 was the primary source of the recent bout of weakness, but I believe management was also partially to blame for company-specific issues that existed prior to the pandemic. Still, it'd be foolish to underestimate the iconic brand's turnaround potential.

There have been rumours stirring that activist investor Bill Ackman may start getting more active with his significant stake in Restaurant Brands to unlock the full value behind the firm's powerful chains. If Ackman gets more involved, the fast-food kingpin will become a must-buy if it's not already at today's severely depressed valuations.

Even if Ackman stays passive, QSR shares are still unreasonably undervalued, given the upside to be had once this pandemic subsides.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

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2. NYSE:QSR (Restaurant Brands International Inc.)
3. TSX:BMO (Bank Of Montreal)
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Date

2025/08/24

Date Created

2020/08/17

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