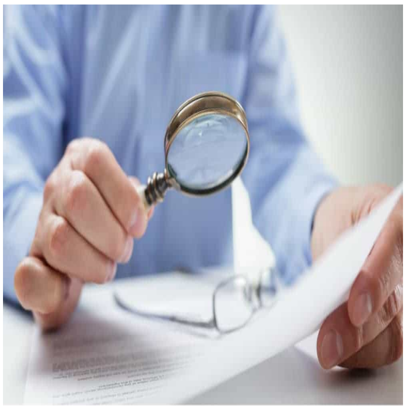

Stocks at a 55-65% Discount: Where to Invest $1,000 Right Now

Description

It took fewer than five months for the equity indices to recover most of the losses amid the pandemic. While most of the top **TSX**–listed stocks regained their lost ground, a few didn't participate in the massive recovery rally and are available at a 55-65% discount on a year-to-date basis.

The continued spread of the virus and uncertain economic outlook is limiting the upside in few stocks, especially in the energy and passenger airline sectors. However, I believe it's time to allocate a small portion of your portfolio into these beaten-down names, as the reopening of the economy and the gradual pickup in demand is likely to drive recovery in these stocks.

So, if you got $1,000, consider buying these shares at a huge discount to generate stellar returns.

The energy giant

First up are the shares of **Suncor Energy** (TSX:SU)(NYSE:SU). I find Suncor Energy stock highly attractive at the current levels (Suncor stock is down about 58% this year). It trades at the next 12-month EV-to-sales multiple of 1.6, which is well below its historical average multiple of about 2.2.

The massive discount in Suncor Energy stock makes it one of the top recovery bets. While the demand for crude oil remains weak, the gradual recovery in China and India's demand is encouraging. Further, greater coordination among OPEC+ nations to manage the oil market and prices are positive.

Despite the signs of recovery, it could take two to three years before the demand for crude oil returns to pre-pandemic levels. However, investors should note that Suncor Energy's low-decline and long-life assets and strong cost-reduction measures are likely to help the company to navigate the current slowdown. Further, its integrated business lowers some price risk.

Amid the pandemic, the company is optimizing its product mix and focusing on producing the higher-value synthetic crude oil barrels. The move maximizes its per-barrel margin and drives cash flows.

The company's production mix shift towards better-margin products, cost-reduction measures, expectations of a gradual improvement in demand, and attractive valuation suggests that investors should lap up Suncor stock at the current levels.

Canada's largest airline company

Next up are the shares of **Air Canada** (TSX:AC). Similar to energy stocks, passenger airline companies took a massive hit from the pandemic. Travel restrictions and continued cash burn have led to a year-to-date decline of 64% in Air Canada stock.

However, the huge selloff in Air Canada presents a solid opportunity for investors to gain big from the recovery in its stock.

The passenger volumes continue to stay low, despite the restart of the domestic flights. Meanwhile, the closure of international borders further plays spoilsport. However, Air Canada's net cash burn rate and the decline rate in passenger volumes are expected to decelerate sequentially. Also, capacity is likely to show gradual improvement.

With an expected improvement in demand, investors with a medium- to long-term outlook could consider buying Air Canada stock at the current levels.

Bottom line

The rapid recovery in equities indicates that market participants no longer care about the coronavirus's continued spread. Both these stocks are trading dirt cheap and have the potential to double your $1,000 investment in the medium to long term. However, both these stocks are risky bets and are likely to remain volatile in the near term.

CATEGORY

1. Coronavirus
2. Energy Stocks
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