A New Chapter in the Stock Market Rally: Which Stock Will Benefit?

Description

The stock market rallied significantly in the past few months recovering almost 95% of the March sell-off. The **TSX Composite Index** (TSX:^OSPTX) dipped 33% in March and surged 30% between April 1 and September 2. This rally was backed by the Justin Trudeau government's emergency benefits that put cash in the hands of Canadians. However, the rally faded in September and October as the emergency benefits came to an end and new recovery benefits took its place.

This transition from Canada Emergency Response Benefit (CERB) to Canada Recovery Benefit (CRB) marks the beginning of a new chapter in the stock market rally. When the CERB infused liquidity in the economy, lockdown had pushed the world toward digitization. Everyone was shopping, working, paying, and watching videos online. Hence tech, logistics, and cloud stocks that support digitization skyrocketed. **Shopify**, **Kinaxis**, **Cargojet**, and **Lightspeed** were among the biggest beneficiaries.

The new chapter in the stock market rally

Many investment pundits touted that this stock market rally won't last. When the government benefits end, the stock market would crash. But the CRB is injecting more liquidity, and this cash benefit would fade gradually. This new chapter in the stock market rally would see the growth stabilize. The four virus stocks that rose to glory in the pandemic seems to have hit their peak. They have little upside in the new chapter as investors have already priced them for the next few years of bullish sales growth.

The new chapter in the stock market rally could see a modest recovery in the stocks that would stand to benefit from the reopening of the economy. Real estate and natural gas would be the first beneficiaries of the economic recovery. You can gain from this recovery by investing in **RioCan REIT** (TSX:REI-UN) and **Enbridge** (TSX:ENB)(NYSE:ENB).

RioCan REIT

RioCan REIT is Canada's second-largest retail REIT and earns more than 73% of its revenue from retailers. The pandemic forced non-essential retail stores to shut down temporarily. As shops were not doing business, some big retailers closed most of their stores to cut costs, and some small retailers shut down permanently.

RioCan acted accordingly and assessed every single tenant's survival and negotiated rent. As part of the negotiation, it deferred rent for 7.7% of its tenants and put 14.4% of its tenants through the Canada Emergency Commercial Rent Assistance (CECRA) in the second quarter. Under the program, the government will bear 50% of rent costs, and the retailer and the landlord would bear 25% each.

Moreover, the REIT holds security deposits and letters of credits, which will offset any rent defaults. In addition, it does not expect to recover 6.8%, or $9.2 million of its rent and has already claimed it as a loss.

The above measures would mitigate the risk of rent collection. RioCan's third-quarter earnings on October 29 might show improved gross rent and it might even post a profit. However, the actual risk would be the lower occupancy rate as many retailers might end their rent agreement to cut costs. If RioCan succeeds in maintaining a high occupancy rate, the stock could start walking on the road to recovery.

Despite its headwinds, RioCan's 9.55% dividend yields and strong cash flows make it a good buy in the recovery phase.

Enbridge stock

Enbridge is North America's largest pipeline operator. It transmits 25% of crude oil produced in North America and 20% of natural gas consumed in the United States. The oil industry is undergoing a demand crisis, but it doesn't directly impact Enbridge's "toll-take" business model. The company builds and maintains pipeline and take a toll from energy companies for letting oil and gas pass through its pipelines.

Enbridge is facing the heat from the pandemic as reduced oil demand has reduced its toll revenue. But its cost has also come down. Hence, while its revenue fell 40% year over year in the second quarter, its net profit fell less than 3%. However, its cash flows remain unaffected as lower revenue from oil transmission is offset by higher revenue from natural gas and renewable energy.

Although Enbridge's dividends are safe, the 30% discount on its stock price has inflated its dividend yields to 8.5%. The stock's growth hinges on oil demand recovery.

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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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