REVEALED: Top 2 Canadian Economic Recovery Stocks to Buy and Hold Through 2021

Description

It's been a brutal year, and investors should expect more of the same as we head into the new year. Although the odds that we'll have a safe and effective coronavirus vaccine are medium to high depending on who you ask, I find it likely that this "new normal" of outbreak surges and intermittent shutdowns could plague the first half of the new year in a bull-case scenario.

That means investors should look to value stocks that are capable of outperforming in a slow and steady road to recovery, rather than going all-in on battered firms that are essentially all-or-nothing bets on the timely advent of a vaccine.

I suspect the Canadian economy will recover modestly in the first half of 2021, with an economic acceleration towards the fourth quarter if we are due for a vaccine at some point in the middle of next year. Industrials like **CN Rail** (TSX:CNR)(NYSE:CNI) and **TFI International** (TSX:TFII) are well equipped to do their part to drag the Canadian economy out of the gutter over the next 18 months. And I think they're worth buying right here.

CN Rail

CN Rail stock suffered a derailment following the release of its "weak" quarter. Investors saw a lot of hair on the quarter, but I thought it didn't change the medium-term prospects. With a 2021 recovery coming in fast, I'd say the correction in CNR stock is nothing short of a gift courtesy of an inefficient and rattled Mr. Market. Yes, CN Rail's valuation may have gotten lofty going into the quarter, but I did think the post-earnings sell-off was a tad on the extended side.

In a prior piece, I'd called CN Rail my top rail pick, noting that the firm had great potential for margin improvement in 2021. After the quarterly flop, I also thought the bar was set too low for the name and thought there was more potential for upside surprises for the firm we know as North America's most efficient railway.

CN Rail stock isn’t cheap here, but it’s not cheap for a reason. A volume surge is coming, and with room to improve upon its operating ratio, I’d be more than willing to pay a slight premium to that of the stock’s historical averages.

TFI International

TFI has kept on trucking during this horrific pandemic. I’ve often referred to the rails as the heart of the North American economy and the truckers as its blood vessels. The economy’s heart and blood vessels will need to be going strong next year if the economic carnage is to be healed.

The transport and logistics company serves Canada, the U.S., and Mexico. Around 70% of its facilities are located in Canada, with the remainder (mostly) in the states. The company suffered its fair share of operational stumbles in years past, but they’ve since been corrected, and then some.

The company is growing its cash flows like nobody else’s business, and the firm’s operational performance continues to be robust with a solid 17.7% ROE (TTM) and a 9.9% ROIC.

Shares of the trucker trade at 1.1 times sales, 2.5 times book value, and a ridiculous 7.6 times EV/EBITDA at the time of writing. With such a low price of admission and compelling catalysts on the horizon in 2021, I’d say the stock has one of the better risk/reward tradeoffs in the **TSX Index** at this market crossroads.

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1. Coronavirus
2. Investing
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POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)
3. TSX:TFII (TFI International)

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