Got $6,000 to Invest in a COVID-19 Recovery? Start With This Buffett Stock

Description

In just a month and a half, once the clock strikes midnight on a new year, Canadians will have the ability to make their 2021 TFSA contributions (it's likely to remain at $6,000). If you've yet to invest your 2020 contribution over concerns of rising volatility and the horrific pandemic, you're not alone.

With an effective vaccine now in sight and an investor-friendly U.S. presidential election result (Joe Biden with no Blue Wave means corporate tax hikes and stringent regulations are now less likely), now is as good a time as any to put your $6,000 contribution to work before you find yourself sitting on $12,000 in TFSA funds.

It's been a sweet November for investors thus far, but it could get much sweeter. Although last week's incredible rally has increased the price of admission to many COVID-19 recovery plays, I still think the premium is well worth paying, given the ever-increasing clarity on the vaccine timeline. Valuations, on average, may be around 10% frothier than back in the depths of late October. Still, compared to the road that lies ahead, I'd argue that the premium could swell much further for various COVID-hit stocks that are still miles away from their pre-pandemic highs.

It may be wise to follow Warren Buffett into Suncor with your TFSA funds

Consider shares of a name like **Suncor Energy** (TSX:SU)(NYSE:SU), which is still off a staggering 60% off its 52-week high. Energy stocks are viewed as rancid by many investors these days. The fossil fuel plays have taken among the biggest of hits amid the COVID-19 crisis. With valuations that make many oil stocks, even the best-in-breed ones, close to the cheapest they've ever been, I'd argue that many of them are capable of massive upside coming out of this pandemic.

Now, energy stocks like Suncor are still on the wrong side of a long-term secular trend. Green energy is picking up traction, but fossil fuels aren't about to become obsolete anytime soon, even though depressed valuations on many fossil fuel stocks seem to be suggestive of such.

If you're looking for deep value and big upside as we transition into the post-COVID world, I'd argue that there's a huge case to be had for going against the grain with battered energy stocks while they're still close to rock-bottom levels.

Suncor is an integrated energy kingpin with one of the most resilient operating cash flow streams out there. Warren Buffett likes the company for a reason. It's a best-in-breed player that's likely trading at a huge discount to its intrinsic value range. While the energy industry is viewed as uninvestable by many of today's young investors, there's no denying Suncor's solid cash flows and tremendous upside potential in an unforeseen uptick in oil prices.

Suncor remains a best-in-breed oil play, and it's still got a considerable margin of safety, with shares trading at a near 20% discount to its book value. While Suncor seems more like a Warren Buffett-style "cigar butt" with a few more puffs left in it, I'd argue that given the likelihood of an oil price surge back to pre-pandemic norms that Suncor is a wonderful business trading at a wonderful price.

Foolish takeaway for TFSA investors

It's usually a wise idea to invest alongside Warren Buffett. If you seek to maximize your upside for a coming economic recovery from this crisis, battered energy stocks are tough to pass up. And if you're not willing to share your gains with the CRA, stash Suncor in your TFSA as you wait for the tides to turn in Alberta's ailing oil patch.

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