Top 2 Rebound Stocks for 2021

Description

2020 was a difficult year for some stocks. Retail, leisure, travel, and entertainment were all severely punished by the pandemic and lockdowns. However, there's light at the end of the tunnel now.

The vaccination drive is underway, and 2.3% of Canada's population has already received their first dose of the COVID-19 vaccine. By the end of 2021, malls, flights, and restaurants could be back to normal.

With that in mind, here are the top two rebound stocks that you could bet on this year as the recovery gathers steam.

Air Canada

Air Canada (TSX:AC) stock took a significant hit in 2020, as the sector felt the full brunt of the pandemic. While Air Canada stock was not spared either, the stock has made a comeback in recent weeks amid talk that it is poised for a parabolic move.

Improving fundamentals

A faster-than-expected end to the pandemic followed by a resurgence of the travel industry, are some of the factors that affirm why Air Canada would be a perfect bet in the airline industry. The airline is likely to see a significant surge in volumes coming out of this pandemic once the travel restrictions are lifted.

The breakthrough on the vaccine front has once again brought hope to the embattled airline industry. As more people get vaccinated, the pandemic should be brought under control, a development likely to result in the easing of lockdown restrictions as well as fears about air travel. Likewise, Air Canada remains well positioned to be one of the beneficiaries.

Air Canada's stock valuation

After a recent slide lower, Air Canada is currently trading at a great discount relative to its long-term prospects. Likewise, the stock remains well positioned to skyrocket once prospects in the travel industry improve.

Amid the pandemic, the company's cargo revenues are growing steadily and likely to sustain the momentum in 2021. The airline has already doubled its cargo space and is operating more cargo flights to meet the growing demand.

Air Canada boasts of a top-tier growth potential backed by a solid balance sheet that has improved amid an ambitious cost-cutting drive that will reduce about $3 billion through 2023. Significant costs cuts should also continue to support Air Canada's cash flow — a development likely to drive recovery in the stock.

While the lower operating scale is to impact revenues and margins, improvements in air travel demand and cost-cutting measures should help drive Air Canada financials and, in return, fuel a recovery in financials.

Diversified Royalty

Another rebound stock is **Diversified Royalty** (TSX:DIV). The company owns and manages franchises such as Air Miles, Sutton, Mr. Mike's steakhouses and Mr.Lube. As Canadians start dining out and driving again, this stock could rebound sharply.

At the moment, DIV stock is down 27% from its pre-crisis market price. It's still offering a hefty 8.2% dividend yield. That could make it an ideal buy for income-seeking investors with a contrarian streak.

CATEGORY

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2. TSX:DIV (Diversified Royalty Corp.)

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