2 Beaten-Down Canadian Stocks That Could Turn it Around

Description

The 2020 market dip was different from the previous crashes and corrections for a wide variety of reasons. But now that it's a thing of the past, a lot of investors might already be mentally preparing themselves and actually preparing their investment portfolios for a recession.

Even though a lot of stocks have recovered, not all businesses have recovered their pre-pandemic financial strengths and income levels, and some of them might go belly up if another crash hits too early. But on the bright side, given enough time, even the most beaten-down stocks can actually recover.

The premier airline

Air Canada's (TSX:AC) potential bankruptcy was a hot topic last year, but thanks to the company's resilience and some brutal survival measures, it managed to survive on almost negligible operational activity compared to its pre-pandemic prime. But despite its liquidity position, another recession might be too much for the company to handle.

The company has sustained heavy losses for four consecutive quarters. Thanks to the positive pandemic outlook and vaccination, the stock is finally recovering, but the momentum can reverse, mostly if the next recession is associated with COVID's new strains. But even if it's purely a financial dip, like the consequence of the government pulling the plug on benefit payments, Air Canada might sink.

Conversely, Air Canada can also prove to be a great recovery bet if the next crash is too far away. The stock is already up 21.3% this year and about 120% from its lowest valuation during the crash. It might keep climbing, as the fear of the pandemic dissipates.

A real estate stock

Like some others in the sector, **Interrent REIT** (TSX:IIP.UN) is having trouble recovering from its pre-pandemic valuation and growth momentum. The REIT is still trading at a price that's 25% down from its pre-crash peak. It might be bad news for investors who already have this stock in their portfolio but an opportunity for others.

At a price to earnings of five and a price to book of one, the stock seems very attractive from a valuation perspective. Ironically, its revenues and gross profits didn't take a serious dip, even during the worse quarters last year, and it's one of the few REITs that hasn't slashed dividends yet. It's offering a 2.39% yield at a very comfortable 10.8% payout ratio.

The company is financially stable, and it's likely to start recovering once the sector has built some growth momentum. If it turns things around and picks up where it left off, Interrent can be a profitable long-term growth bet.

Foolish takeaway

Not all beaten-down stocks are liabilities. Air Canada has already recovered quite a bit, and Interrent can become a decent undervalued growth bet. The two stocks are still on the road to recovery, but they might soon reach their destination and grow beyond it. So, if you believe they can survive the next recession as well, you may consider adding them to your portfolio and wait for them to turn things around.

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2. TSX:IIP.UN (InterRent Real Estate Investment Trust)

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