2 Cheap TSX Stocks to Buy Now

Description

The market rally over the past year wiped out most of the pandemic deals, but investors can still find cheap TSX stocks for their portfolios.

Canadian National Railway

Canadian National Railway (TSX:CNR)(NYSE:CNI) trades near $126 per share at the time of writing compared to nearly $150 a few weeks ago. The pullback is due to CN's US$30 billion deal to buy **Kansas City Southern**, a U.S.-based railway with lines connecting to Mexico.

As part of the deal, CN is giving Kansas City Southern US$700 million that will cover a break fee paid to **Canadian Pacific Railway**. Kansas City Southern walked away from a US$25 billion takeover agreement with CP.

The markets have pushed CP stock higher while hammering CN. There is concern that CN is wasting hundreds of millions of dollars on a trying to do a deal that could ultimately get rejected by regulators. At least one major CN shareholder is against the takeover, and the coming months could see more volatility hit the stock.

That said, the long-term prospects look good for CN whether the deal goes through or gets blocked. The company generates strong free cash flow and has the flexibility to make billions of dollars in capital investments each year with cash left over to boost the dividend and buy back shares.

Five years from now, investors will likely wish they had picked up CN at the current share price.

Suncor Energy

WTI oil trades near US$66 per barrel compared to US$36 in the fall last year. The rapid rebound above US$60 and oil's resilience near the current level surprised analysts who widely expected oil to average close to US$50 per barrel this year. **Suncor Energy** (TSX:SU)(NYSE:SU) has benefitted from the recovery, boosting revenue and cash flow in the first quarter. This is helping Suncor reduce debt faster than expected. In addition, the board is taking advantage of the low share price to repurchase stock with excess cash.

The second half of 2021 should see a broad reopening of the Canadian and U.S. economies and reduced travel restrictions. Commuters are expected to head back to offices, and airlines are seeing a steady increase in domestic bookings. These developments point to rising demand for gasoline and jet fuel. This should benefit Suncor's retail and refining businesses.

Suncor slashed the dividend by 55% to protect cash flow last year. The existing payout provides a yield of 3% at the current share price near $28. Suncor traded above $40 per share before the pandemic, when WTI oil was close to 10% below today's price. Some analysts expect oil to hit US$75 before the end of 2021.

With oil prices rising and fuel demand expected to recover, Suncor appears undervalued right now.

The bottom line

It's tough to find deals in the current market, but CN and Suncor look cheap at current prices. The two companies are leaders in the respective industries and should be top TSX stocks to own in a buy-and-hold portfolio.

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