Got $1,000 to Invest? 2 Reopening Stocks Under $5 to Buy Now

Description

The stock market rally looks determined to extend its run over the coming months and some of the worst-hit stocks from 2020 might outperform.

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Baytex Energy

Baytex Energy (TSX:BTE)(NYSE:BTE) bottomed out around $0.30 per share last year and now trades at $2.00 at writing. Investors who had the courage to buy at the low are already sitting on some big gains, but more upside could be on the way.

Baytex Energy took a beating after it made a large acquisition at the peak of the last oil boom. It closed its purchase of Aurora Oil and Gas in June 2014, right before the oil market tanked. The stock's subsequent decline was one of the worst in the Canadian oil patch, falling from $49 per share shortly after the Aurora deal to last year's low.

Rising oil prices are helping Baytex Energy generate excess cash to pay down its large debt position. The company finished Q1 2021 with $1.76 billion in net debt. Baytex Energy expects to generate free cash flow of $250 million this year and a cumulative free cash flow of $1 billion through 2025, assuming West Texas Intermediate (WTI) oil averages US$55 per barrel for the year. At this point, oil is well above that mark and could move even higher. Strong natural gas prices are also helping Baytex Energy this year.

The extra cash flow should give Baytex Energy the flexibility to boost its capital plan and increase output, leading to even better revenue and profit numbers. Management figured the net asset value of the company was $2.78 per share at the end of December, suggesting it was heavily undervalued. The oil market has improved considerably over the past five months and the original estimation was likely conservative.

Bombardier

Bombardier (TSX:BD.B) has been a disaster bet for investors over the past 20 years. Delays and cost overruns on the CSeries jet program put the company in a dire financial situation that required investment from Quebec and the province's pension fund to keep it going. Management was forced to sell off most of the legacy businesses, including all the commercial plane divisions and the rail group.

Bombardier is now simply a pure-play bet on the global business jet market.

With the global economy recovering and international travel set to reopen in the coming months, companies and wealthy individuals will start spending on private jets. Executives and rich people will want to travel but might be concerned about being exposed to new COVID-19 variants in the next couple of years. Bombardier has a world-class product line in the business jet segment and stands to benefit from the economic recovery.

The stock trades near $1 per share. That's already up from the 2020 low around $0.30 last fall. The stock price will likely remain volatile, so you have to have a stomach for the sharp moves, but there could be an opportunity for some decent gains over the next year or two.

Bombardier might even become a takeover target for private equity or an alternative asset manager now that the legacy headaches are more or less in the rearview mirror.

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The bottom line

Baytex and Bombardier still carry risks and investors shouldn't back up the truck. However, these beaten-up stocks might deliver strong returns for investors searching for reopening picks for their portfolios. Oil prices are likely headed higher and more rich people might prefer to have their own planes.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)
2. TSX:BTE (Baytex Energy Corp.)

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