2 Cheap Recovery Stocks to Buy for 2022

Description

Investors are looking for the next leaders of the pandemic recovery. Tech stocks led the way in 2020 and 2021, but other sectors look undervalued right now and should be on your radar as we head into 2022.

Suncor Energy

WTI oil traded for about US$63 per barrel at the end of 2019 before news of COVID-19 started to emerge. **Suncor** (TSX:SU)(NYSE:SU) traded for $42 per share at the same time. Today, WTI oil is at US$75, yet Suncor trades near $26.50. The company's downstream operations took a hit as the slump in fuel demand last year put pressure on revenues for Suncor's refining and retail businesses, but the rebound is well underway and looks like it could go into overdrive in 2022.

Airlines are seeing strong holiday bookings for winter flights and ramping capacity, as travel restrictions continue to ease. This means jet fuel demand is set to soar. In addition, companies are preparing to bring employees back to the office in large numbers in early 2022. Many former city dwellers have moved to the suburbs and will now be highway commuters. Those who previously rode the subway or a bus to work might still be uncomfortable spending time close to thousands of other people every day and could decide to drive to work for the first six months of next year. This would potentially result in a large spike in gasoline demand that isn't being accounted for by the market in Suncor's share price.

The company is working through some operational challenges at two production sites that will reduce production in the next few months, but the discount on the stock compared to the pre-pandemic share price looks overdone.

Investors should see a big dividend increase in 2022, as the company starts to make up for the 55% distribution cut it put in place last year. In the meantime, Suncor is using extra cash to buy back the cheap shares and pay down debt.

TD

TD (TSX:TD)(NYSE:TD) is Canada's second-largest bank by market capitalization and has a large retail banking presence in the United States. In fact, TD operates more branches south of the border than it does in the domestic market.

The bank made it through the worst part of the pandemic in better shape than the market feared in the spring of 2020. TD's share price recovered most of the losses by the start of this year and is up 18% in 2021. The easy money has already been made, but this stock should continue to move higher.

TD trades a roughly 10 times trailing 12-month earnings, which is pretty cheap for a bank that is this profitable. The company is sitting on significant excess cash that it built up to cover potential loan losses. Investors should see a big dividend increase next year, and TD might decide to use the cash pile to make a strategic acquisition to boost growth.

Interest rates will likely start to move higher in 2022 and continue to rise in the next few years. This might put some borrowers in a tight spot, but the overall impact of higher interest rates is normally net positive for TD and the other Canadian banks.

Investors who buy the stock near the current price of $85 can pick up a 3.7% dividend yield.

The bottom line on cheap recovery stocks for 2022

Investors who have some cash on the sidelines might want to start nibbling on Suncor and TD at these levels. The oil and banking sectors should do well next year as the economic recovery kicks into gear.

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aswalker