Retirement Investors: 3 TSX Stocks That Could Rally With the Economy

Description

The basic rule of making money in stocks is to “buy the dip and sell the rally.” Still, millions lose money as they react to the noise. Noise is news that paints a rosy picture or a dark outlook for a company while ignoring the long-term fundamentals. Smart investors avoid noise and invest in stocks they have confidence in.

A REIT that could recover with the economy

SmartCentres REIT (TSX:SRU.UN) stock descended when the interest rate hike began. Higher interest rates increased the borrowing cost and reduced property prices that were ballooning in the near-zero interest rate environment. The dip in property prices significantly reduced the fair market value (FMV) of all the investment portfolios for Canadian real estate investment trusts (REITs). SmartCentres’s third-quarter net income fell to $3.5 million from $178.1 million due to FMV adjustment.

Net income does not directly impact REIT’s distributions, which are paid from operating cash flow. SmartCentres’s operating cash flows from rent and property sales are sufficient to pay distributions. Its third-quarter distribution payout ratio was 86.6% of operating cash flow, which shows that the REIT can continue paying $0.15 per share for some time.

But next year could be challenging for SmartCentres, as its variable debt ratio has increased from 11% to 17%. But its other leverage ratios are within the target range, hinting that the REIT can manage its debt. And less than 90% distribution payout ratio is manageable in the short term.

SmartCentres has several projects coming online that would contribute to its 2023 operating cash flow and help it maintain its current distributions. The REIT is walking on thin ice, balancing cash flows, debt, and distributions. The weak short-term fundamentals and depressing property prices have pulled down the stock price.

When the economy recovers, and property prices begin to ascend, SmartCentres’s stock price will also rally. A hint of the rally was visible between October 12 and November 12 when the stock price jumped 12%, as the Bank of Canada slowed the interest rate hike from 75 basis points (bps) to 50 bps. It is not too late to book your seat in the recovery rally.

Two long-term growth stocks to boost your retirement portfolio

When you are investing for retirement, always look at the long-term possibility. Buy stocks with futures that you are bullish about. Two such stocks are **BlackBerry** (TSX:BB) and **Magna International** (TSX:MG).

The bullish future to watch is the electric vehicle (EV) revolution. EV growth is delayed due to supply constraints like rising commodity prices, chip supply shortages, China lockdowns, and energy shortages in Europe. The automakers are unable to meet demand. They are also feeling the heat of inflation. Auto sales could take a hit in a recession, as consumer demand shifts from discretionary to necessity.

These are difficult times for automakers and their suppliers. But they will see a recovery when the economy revives.

BlackBerry stock

BlackBerry's growth driver is its QNX automotive operating system (OS). The company is utilizing this time to secure design wins for QNX. It has partnered with 24 of the top 25 EV makers. When EV demand picks up, BlackBerry could realize its $560 million QNX backlog, equivalent to three years of its Internet of Things revenue.

BlackBerry's management aims to grow its revenue at an average annual rate of 13% by 2027 and start generating positive cash flow by 2025. These targets might take time to realize if the recession impacts EV demand. But taking a five- to seven-year investment horizon, BlackBerry stock can give double-digit growth.

Magna stock

Magna is better positioned than BlackBerry to ride the EV momentum. It has a higher content per car, as it supplies components like vision, power terrains, body exteriors, and third-party car manufacturing services. The demand weakness has forced Magna to reduce its 2022 guidance. But it will bounce back, as these short-term headwinds unfold. The stock has showed a recovery in the last 40 days, rising 25% on stronger third-quarter earnings.

The EV market is expected to surge at a compound annual growth rate of 18.2% by 2030. Magna and BlackBerry are well placed to tap this growth.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BB (BlackBerry)

2. TSX:MG (Magna International Inc.)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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