



Which Is the Better Buy: Enbridge Inc. or Air Canada?

Description

I'm going to look at two stocks that appear to be going in opposite directions but that could be great buys for very different reasons.

After reaching [all-time highs last year](#), **Air Canada** ([TSX:AC](#)) has seen a bit of a sell-off lately as investors may have been scared off by the rising valuation and also likely wanted to cash out some of their returns. In 2017, the airline's stock price nearly doubled, and in the past five years it has risen 1,370%. However, in the past three months the company's share price is down more than 7%.

Meanwhile, **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) is at the other end of the spectrum, as it is starting its ascent after a brutal year in 2017. A low price of oil and an industry that is still in the early stages of recovery resulted in Enbridge's share price dropping 13% last year.

However, with OPEC recently agreeing to extend supply cuts until possibly the end of 2018, oil prices could continue to rise this year. Enbridge's stock is up more than 10% since the end of November.

The stocks appear to be heading in different directions, but let's take a closer look to see which one is the better buy today.

Which company has the better outlook?

Determining which stock will do better depends on where oil prices are headed as well as how the economy will perform.

Oil prices have been rising since the second half of 2017 and there's plenty of reason to expect that [it will continue](#). The danger is that when supply cuts are lifted, we'll likely see a big correction happen afterward. However, Enbridge has been producing strong results even without a high price of oil.

In its most recent quarter, sales of \$9.2 billion were up more than 8% from a year ago, while operating income has been over \$1.3 billion in each of the past three reporting periods.

The bigger question relates to the economy. Rising minimum wages and interest rates could make it a

difficult year for the economy to grow. If that happens, then we could see less business and personal travel, which will have an adverse impact on airline stocks.

Which stock offers the better value?

Enbridge trades at more than 26 times earnings, while Air Canada trades at less than four. However, if we look at price-to-book ratios, then Air Canada's stock trades at a slightly higher premium.

Air Canada is certainly a better deal for value investors looking to find a good deal, especially when you consider that rival **WestJet Airlines Ltd.** trades at more than 10 times its earnings.

Bottom line

These two stocks might be two of the best bargains on the TSX right now. Enbridge has a lot of potential as the oil and gas industry continues to recover, while Air Canada's valuations and strong market position make it a terrific buy as well.

Although I'm not optimistic about the Canadian economy, over the long term I don't believe that oil prices will be able to sustain even \$60 a barrel, which will keep investors away from Enbridge and other oil and gas stocks. Air Canada provides excellent value for investors, and if oil prices go back on the decline, it will only make the airline's bottom line even stronger.

CATEGORY

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