TFSA Investors: Can This Top TSX Stock Outperform Long Term?

Description

Last year was the best 52 weeks in about 15 years for this top performer on the **Toronto Stock Exchange**. Although the **S&P/TSX Composite Index** level percentage change is only 14.12%, the market value of this stock increased by nearly 60%. The gains arrive after a rough decade and a half for **Air Canada** (TSX:AC)(TSX:AC.B) on the TSX.

Canadian investors who haven't already invested in Air Canada may want to consider this stock now that it has rebounded from numerous recessions and increased security costs. The firm possesses substantial control over the market in Canada, as the most significant Canadian flag carrier or national airline with preferential government treatment. Market power is a crucial driver of robust stock market gains.

Whether you are saving for retirement or your children's college education, Air Canada will provide excellent capital gains for your long-term savings accounts. Your Tax-Free Savings Account (TFSA) in particular would be a great place to store this investment, as it will allow you to grow your wealth without the eventual obligation to share your profits with the Canada Revenue Agency.

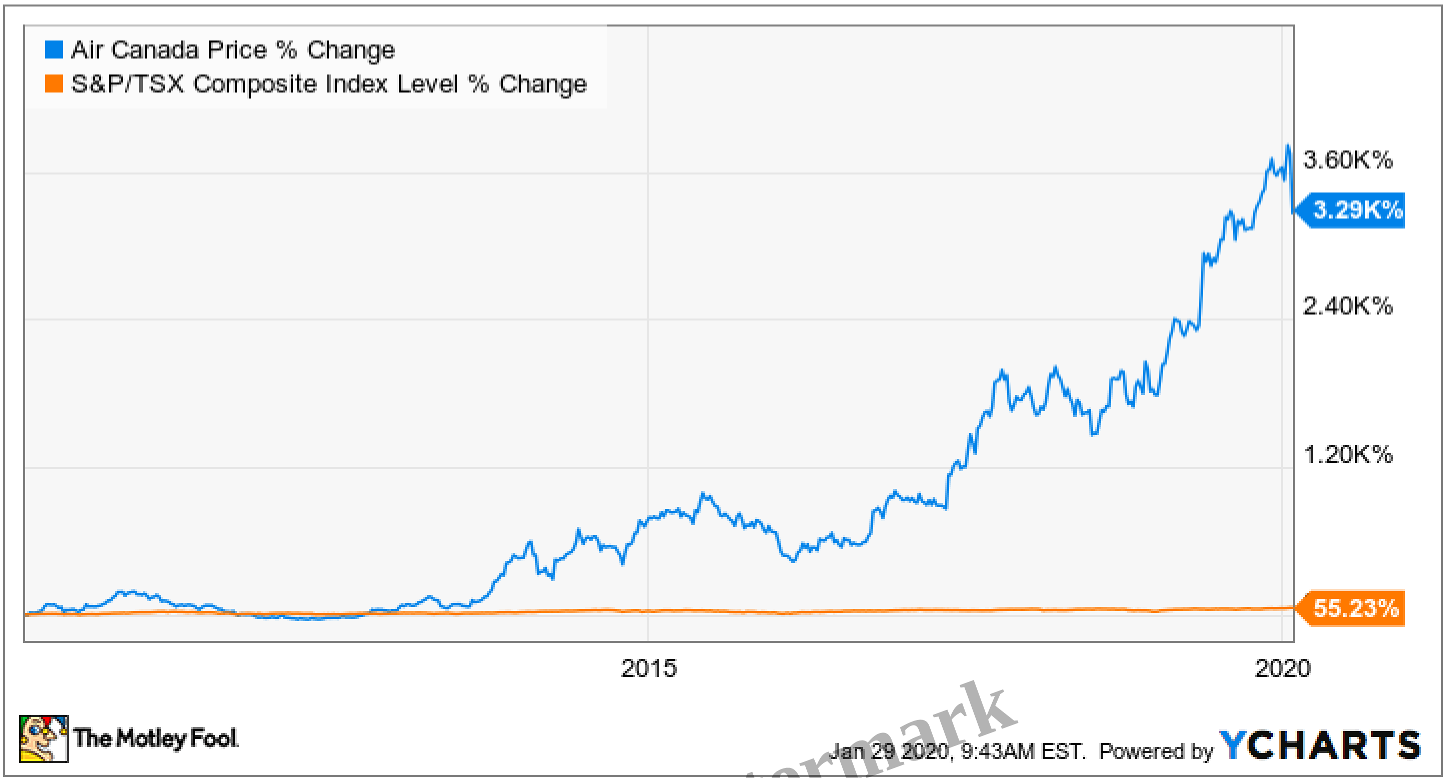
Air Canada's stock price may still be running on the TSX throughout 2020

After completing a bankruptcy in 2004, Air Canada continued to struggle on the TSX until last year when its share price picked up steam. In spite of the price gains, popular investor valuation measures still demonstrate the potential for continued price momentum.

The price to sales is only $0.65 for every $1 in sales, meaning that you are purchasing income from sales at a $0.35 discount per share. That's a pretty good deal. The stock also has a positive earnings per share, levered free cash flow, and profit margin.

Impeccable return on equity resulted in stock market gains

Air Canada's stock price has appreciated 3,290% from where it was 10 years ago on the TSX. In comparison, the S&P/TSX Composite Index Level percentage change is only 55.23%. The stock has officially become a top stock to buy on the TSX.



Air Canada might have a history of high leverage, but that only boosts the return on equity of the stock. The most recent quarter's debt-to-equity ratio is 231.51. For every one dollar of equity value, Air Canada holds $231.51 in debt.

Because Air Canada can secure cheap financing or low interest rates, the higher leverage significantly boosts stockholder returns. Even better, the debt is less risky since the government of Canada likely views Air Canada as a firm that is too big to fail. Like the Big Six banks, the Canadian government considers the flagship carrier status of Air Canada too vital to allow it to ever dissolve from financial troubles.

Air Canada is an excellent long-term investment

Air Canada is one of those stocks that you can buy and hold in your portfolio without losing sleep at night. If the stock price dips, the best strategy is to buy more shares. While this company may not issue dividends to shareholders, the capital gains should be sufficient over an extended time frame to supplement your future Canada Pension Plan payments.

If you have maxed out your TFSA contributions, registered long-term funds like your Registered Retirement Savings Plan or your even your children's Registered Education Savings Plan could benefit enormously from the security in this stock.

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