2 Canadian Top Gainers From the Last Decade Are Down 50%: Will You Buy?

### Description

We all know how bad this market downturn is. There have been plenty of discussions also about how long-term investors should look this as an opportunity.



Importantly, picking out quality stocks has become more crucial than ever because there are numerous stocks that are available at discounted valuations. However, some of them could be value traps, and only the rest of them will outperform over time.

For example, top cannabis player **Aurora Cannabis** (TSX:ACB)(NYSE:ACB) and Canada's biggest airline **Air Canada** (TSX:AC)(TSX:AC.B) have halved in value amid the recent market volatility.

## Aurora Cannabis

The once hot pot stock has returned more than 2,700% in the last decade. Some might think it as an attractive bet as one of the top gainers of the last decade is available at a significant discount after a recent fall. However, its recent numbers tell a different story.

Aurora Cannabis is struggling on many fronts for the last few quarters. Its revenue growth notably fell, while it yet again reported a loss in the recent quarter. The black market could continue to pose a severe challenge for the cannabis industry.

Dwindling operating cash flows led to additional equity issuances, which resulted in equity dilution. The debt levels continue to remain significantly high in the industry. Thus, the challenges appear to outweigh opportunities for players like Aurora Cannabis at the moment.

There has been no respite for Aurora Cannabis stock and its investors. The stock was trading beyond $13 levels this time last year, while it is currently trading at close to $1.2. Aurora Cannabis stock looks to be trading at a large premium, despite its recent fall. It is currently trading in the deep oversold zone, which could attract buyers, but only in the short term.

# Air Canada

At the same time, Canada's biggest airline Air Canada was also one of the top performers in the last decade. It has returned approximately 3,700%. However, the coronavirus jitters have weighed on the stock, which took it down by more than 46% so far this year.

Travel restrictions and flight cancellations have set Air Canada stock in a free fall recently. It will significantly hamper its current quarter's earnings. Notably, the impact could continue in the subsequent quarters if the coronavirus outbreak continues for a longer period.

However, a few quarters' underperformance should not deter investors. The company is fundamentally sound, and its financials have been strong. In 2019, the airline reported a net income of $1.48 billion. That's a notable jump from $876 million in 2016.

More importantly, lower oil prices will lower jet fuel prices as well, which forms a major cost component for airlines. Thus, if oil prices remain lower longer than this coronavirus outbreak, it will be a big positive for airlines such as Air Canada. Its ongoing merger with **Transat A.T.** will also drive its earnings growth in the next few years.

From the valuation perspective, Air Canada stock looks to be trading at a large discount. It is trading seven times its estimated earnings for the next 12 months.



In my view, one of the top gainers of last decade, Air Canada stock, will stabilize once this coronavirus fear calms a bit. Till then, it could trade weak and thus poses a lucrative opportunity for long-term investors.

In the case of Aurora Cannabis, investors would demand more conviction on the financials front. The stock looks weak to me, at least in the short to medium term.

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**Date**
2025/08/25
**Date Created**
2020/03/12
**Author**
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