



Bargain Investors: Should You Buy Air Canada (TSX:AC) or Canadian Tire (TSX:CTC) Stock Today?

Description

The coronavirus outbreak and subsequent stock market crash is a nightmare for investors in airline and retail stocks.

Market meltdown

In a matter of weeks, the share prices of Canada's leading players in these industries plunged to multi-year lows. [Contrarian](#) investors are now wondering when it might be safe to take new positions in troubled sectors.

Let's take a look at **Air Canada** ([TSX:AC](#))(TSX:AC.B) and **Canadian Tire Corporation** ([TSX:CTC.A](#)) to see if one might be an interesting pick right now for a Tax-Free Savings Account (TFSA) portfolio.

Air Canada

Air travel has effectively come to a halt amid global bans on international visitors. As the coronavirus extends its spread in different waves around the world, it could be months before airlines resume some sense of normal activities.

Air Canada said its seat capacity is down nearly 90% since the start of the outbreak. The company initially laid off more than 16,000 employees, but is planning to rehire them under the government's proposed wage subsidy program and simply pay them to stay home.

Bailouts in the form of loans or grants are also expected to ensure Air Canada and its peers survive the crisis.

Risks?

Air Canada just announced the suspension of most of its international routes until June. At this point, investors are unsure when the company can get back to normal. Even if governments open up their borders to international travel, demand could take a while to return.

After the financial crisis, airline stocks rebounded in a big way. And while that could be the case this time, the cause of the crash is different. The COVID-19 crisis could keep people close to home for the next few years.

Air Canada trades at close to \$20 per share compared to \$52 in January, dipping to a closing low near \$12 in March and then climbing higher. Ongoing volatility should be expected.

At this point, I would stay on the sidelines until a return date to normal flight schedules becomes clear.

Canadian Tire

Canadian Tire traded at \$150 per share in February. Today investors can pick the stock up for \$90 after a bounce off the March closing low near \$73.

Provinces initially allowed Canadian Tire stores to remain open as they fell under the essential services banner. Tighter restrictions have since forced the stores to close for walk-in shopping, though online orders for pick-up are allowed.

The company is best known for its 500 Canadian Tire branded retail locations. However, it also operates SportChek, Marks, and Atmosphere, among others. In addition, the 295 gas stations sell more than a billion litres of gasoline each year.

The real estate business, CT REIT, owns 325 commercial properties. Canadian Tire Financial Services has more than 2.1 million active Triangle Mastercard customers.

Its international business, Helly Hansen, owns wholesale and retail distribution operations in more than 40 countries.

As you can see, there are many parts to the Canadian Tire puzzle. The full impact across the various business lines won't be known until the Q2 results come out.

Canadian Tire raised the [dividend](#) late last year. At the current price, you get paid a 5% yield. Management wanted to reduce leverage in 2020, but this will be difficult to achieve.

The company already put the share buyback program on pause and it wouldn't be a surprise to see a distribution cut if lockdowns remain in place for an extended period.

Preserving the strength of the balance sheet is key right now.

The bottom line

Air Canada and Canadian Tire should perform well when the economy finally recovers.

However, I would probably wait to see what happens in the coming weeks and months before hopping on board. While there's certainly attractive upside potential, but investors who buy now should prepare for ugly results in the first half of 2020.

It's possible the stocks could retest the March lows before a sustainable rebound occurs.

CATEGORY

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2. TSX:CTC.A (Canadian Tire Corporation, Limited)

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