Air Canada (TSX:AC) vs. Canadian Tire (TSX:CTC.A): Which Is a Better Buy?

Description

Both **Air Canada** (TSX:AC)(TSX:AC.B) and **Canadian Tire** (TSX:CTC.A) are popular **TSX** stocks. Which is a better buy today? There's no quick answer because it depends on your risk tolerance and comfort levels in the investments.

Should you buy Air Canada stock?

Air Canada is a top contrarian stock as a turnaround investment. The coronavirus pandemic will greatly impact the company and other airlines this year. That's why year to date, Air Canada stock has lost 60% of its value.

Air Canada is the largest provider of scheduled passenger services and cargo services within Canada, between Canada and the U.S., and between Canada and the rest of the world. According to statista, Air Canada has 46% of the domestic market share.

Unfortunately, the pandemic will likely be a big drag on air travel throughout the year. Thankfully, the company has improved its financial position significantly over the years. Its stronger balance sheet should help it to ride through these tough economic times.

Insiders are confident in the business. Thus far this year, seven insiders bought a total of more than $414,000 worth of shares directly from the market. Their average price and median price per share, respectively, are $32.50 and $33.82.

At $19.43 per share at writing, Air Canada stock trades at a 40% discount from the average price. When the economy returns to normal, say, in two to three years, the stock should be able to trade at about $60 for a three-bagger.

Should you buy Canadian Tire stock?

Canadian Tire stock is a Dividend Aristocrat with nine consecutive years of dividend increases. Its 10-

year dividend growth rate is 17%. Its payout ratio, which is sustainable, is about 40% of this year's earnings. The stock starts investors off with a decent yield of nearly 4.8%.

The company tends to buy back shares. In 10 years, it has reduced about 20% of its share count. The buybacks have assisted the retailer to generate relatively stable earnings and high returns on equity.

Its five-year return on equity is more than 14%. Consistent and stable profitability has translated to predictable dividend growth.

Canadian Tire has a long history of operation with roots stretching as far back as 1922. Over the years, Canadian Tire has acquired other banners, including Marks, Sport Chek, and Party City. They cover retailers in work, casual, and active wear, sporting goods, and party supplies and seasonal and celebration, respectively.

The retailer has a solid financial position to weather the pandemic storm. At $95.58 per share, it trades at about 8.5 times this year's estimated earnings.

When the economy returns to normal, the stock can trade at about $200 to double an investor's money today. All the while, it'll pay nice dividend income that'll add to total returns.

The Foolish bottom line

Air Canada is a higher-risk investment due to its bigger swings in profitability. Canadian Tire is lower risk partly because it pays a dividend.

For long-term investment, Air Canada stock will likely deliver greater returns than Canadian Tire stock — a three-bagger versus a two-bagger. However, the latter offers quarterly dividends that yield close to 4.8%.

Beware that both stocks can trade lower should their quarterly earnings reports in 2020 be worse than expected due to the impacts of COVID-19.

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