Forget Air Canada (TSX:AC): 1 Bargain TSX Stock to Buy Instead

Description

Air Canada (TSX:AC)(TSX:AC.B) stock is highly cyclical and super sensitive to economic boom and bust. More critically, air travel has declined dramatically due to the impact of the coronavirus pandemic.

The company estimates it will reduce the second-quarter capacity by 85-90% year over year. As a result, it's putting 16,500 (15,200 unionized workers and 1,300 managers) of its workforce temporarily off work. Its executives, board of directors, and managers are also taking temporary pay cuts. These will all help with substantial cost reduction.

This month, Air Canada is converting the passenger cabins of three of its **Boeing** 777-300ER aircraft to transport cargo, which will double the cargo capacity.

This is wonderful news for Air Canada investors and Canada. With the addition of these newly reconfigured aircraft, Air Canada aims to operate up to 20 all-cargo flights each week.

Moreover, it'd be able to help distribute medical and other vital supplies across the country. Air Canada's greater capacity in its cargo aircraft services will help offset the reduced air traffic.

Some investors prefer to get periodic returns from dividends. If you're this type of investor, consider investing in this bargain TSX stock instead.

Bargain TSX stock: Manulife stock

Bargain TSX stock **Manulife** (TSX:MFC)(NYSE:MFC) pays you to wait for price appreciation, unlike Air Canada stock. In fact, Manulife stock currently provides a handsome payout that yields 6.6%.

MFC stock is a Dividend Aristocrat that has increased its dividend for six consecutive years and maintained or increased its dividend for nine consecutive years.

Its five-year dividend-growth rate is almost 12%. Its payout ratio is estimated to be about 37% of this year's earnings. Therefore, the insurer has strong coverage for its dividend.

Investors should note that Manulife is a very different company from what it was in the 2007-08 global financial crisis. Today, its portfolio is much less sensitive to equity market movements, and its financial position is much stronger.

Being in the insurance business, Manulife generates revenue streams from its existing customer base without having to make a new sale. Therefore, it is much better positioned than other types of businesses that rely on new sales to make money.

The current low interest rate environment is a drag on Manulife's profits. However, it can mitigate some of the impacts by acquiring quality corporate company debt that has higher yields than government bonds.

Additionally, it has been driving scale and cost efficiency, such as through margin improvements in Asia, from which it generates about a third of its earnings and 80% of new business sales.

At $17 per share at writing, MFC stock trades at an absurdly low valuation of 5.6 times earnings. Compare that to its long-term estimated earnings growth rate of 8%. Assuming a multiple expansion to 10-12, the three-year price target is about $30-37 for 76-118% upside potential.

The Foolish bottom line

Air Canada's earnings will get a big cut this year. Additionally, Air Canada stock doesn't pay dividends. For some investors, getting periodic returns from dividend income helps them sleep better. If that sounds like you, consider buying bargain TSX stock Manulife instead and start getting a yield of 6.6%.

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2. TSX:AC (Air Canada)
3. TSX:MFC (Manulife Financial Corporation)

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