Forget Air Canada (TSX:AC): Buy This High-Yield Dividend Stock Instead!

Description

After being beaten down in the March stock market crash, **Air Canada** stock has seen a surge in positive shareholder sentiment. Up 49% over the past month, it's been rallying hard. While the stock is still way down from its all-time highs, it's been a winner for investors who bought in March.

However, the worst may not be over for Canada's largest airline. Faced with a shutdown of its core operations, the company's Q1 earnings are going to be a mess. While government support has bolstered the company's payrolls, it's still refusing to grant refunds, suggesting persistent cash flow issues. If a full-fledged government bailout isn't forthcoming, then Air Canada may have dark days ahead.

Fortunately for investors, there are some beaten-down TSX stocks whose prospects are much better. Facing far fewer structural problems, they have better odds of coming out of the crisis unscathed than Air Canada does. In this article, I'll explore one top TSX stock that has been battered in the COVID-19 crisis but isn't facing an existential threat.

TD Bank

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is Canada's second-largest bank by market cap. It has grown faster than other Canadian banks over the past decade thanks to its popular U.S. retail business.

Like most banks, TD Bank was hit hard in the initial COVID-19 selloff: from February 20 to March 15, its stock fell 35%. That's a substantial decline, but nothing compared to AC's colossal 72% nosedive.

Before going further, I should clarify one thing: there *are* good reasons for investors to sell Canadian banks. Exposed to shaky mortgages, poor consumer credit, and likely oil and gas loan defaults, they're in a tough spot. However, they are more likely to bounce back from the COVID-19 crisis quickly than airlines are. While banks will take a hit from COVID-19 and weak oil, their operations aren't shut down outright. This provides hope for a frictionless recovery.

There *is* one really troubling risk facing Canadian banks, but, as you're about to see, TD is less exposed to it than its peers.

The biggest risk

One of the biggest things TD has going for it right now is its huge U.S. presence. This provides geographic diversification that lessens the bank's exposure to the oil and gas sector.

The vast majority of the risks facing Canadian banks right now are temporary. Mortgage deferrals will end when people get back to work, and consumer credit issues will eventually be resolved. Oil and gas loans, however, are a very serious problem. If oil prices stay depressed, many could go into default. If that happens, then Canadian banks could lose interest revenue for a prolonged period. It's even possible that some energy companies could collapse with too few assets for lenders to recover their principal. TD Bank is less exposed to this risk factor than other Canadian banks, making it a safer bet overall.

Foolish takeaway

While airline stocks could deliver enormous shareholder value in the event that they bounce back from the COVID-19 crisis, it's not clear that that will happen. The possibility of permanently lower "pleasure travel" is very real. In light of this, banks are better dip buys right now than airlines, because they're more likely to walk off their current woes. TD Bank is an especially good Canadian bank play, because it's less exposed to oil and gas than its peers.

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Date
2025/07/06
Date Created
2020/04/20
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