Forget Air Canada (TSX:AC): Buy This TSX Stock Instead

Description

The COVID-19 pandemic has caused a lockdown worldwide that is ravaging stock markets across the board. One of the worst-hit sectors in Canada's economy is the airline industry. With a necessary ban on travelling to control the spread of the novel coronavirus, many prominent airline stocks have taken a beating on the **TSX**.

Air Canada (TSX:AC) had a rough month in March 2020. Between January 13 and March 19, 2020, the stock's share prices nosedived by a drastic 76%. With the announcement of the government's stimulus package to help keep the economy afloat, the stock market is beginning to see a rally. The Air Canada stock is seeing positive shareholder sentiment as well.

Resurgence or false hope?

At writing, the stock is trading for $18.12, and is up 49% from its 52-week low of $9.26 from March. Investors who got in on the stock in March must be happy to see their investment bear fruit. However, the worst may be yet to come for the largest airline in the country.

With an effective shutdown of its operations, Air Canada is not producing any significant revenue. The company is yet to announce its Q1 2020 earnings report. While the report is not out yet, it does not take a genius to figure out that the numbers will be a mess.

Air Canada's core operations have shut down. While the government's support has bolstered its payrolls, the company is still refusing to grant refunds. It's an indication that Air Canada is struggling with persisting cash flow problems. The situation can take a horrible turn for Air Canada unless it sees the support from a full-blown government bailout.

If you are an investor in search of beaten-down stocks that can offer you substantial returns with a recovering market, there are better options to consider. To this end, today I'm going to discuss **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) stock.

Financial sector giant

Toronto-Dominion is the second-largest banking sector operator in Canada in terms of market capitalization. It has grown faster than its peers over the last decade, thanks to its increasing exposure to retail banking in the United States.

Like most banks, TD was one of the stocks hit hard by the initial selloff frenzy due to the COVID-19 pandemic. Between February 20 and March 15, 2020, the stock fell by an absurd 35%. While that's a significant decline for the bank, it doesn't compare to AC's wings being clipped for a nosedive of 72% in the same period.

Canadian banks might not have it easy moving forward due to exposure to shaky mortgages, poor consumer credit, and defaults from the oil and gas sector. Still, the banking sector is more likely to bounce back from the ongoing financial crisis as opposed to Air Canada. The banks will continue to take a hit from COVID-19 and weak commodity prices for oil.

There is another factor that puts Canadian banks at more substantial risk. Toronto-Dominion enjoys insulation from that risk relative to its peers.

Diversification

Toronto-Dominion's significant presence in the U.S. retail banking sector might come in handy moving forward. It reduces the bank's exposure to the oil and gas sector compared to the other major banks in Canada.

Most Canadian banks are facing difficulties due to mortgage deferrals and bad consumer credit. However, oil and gas loans are a more substantial issue for financial institutions due to the oil price war between Russia and Saudi Arabia. While the situation seems to be resolving, it will have prolonged effects on the energy sector in Canada.

TD has a lower risk compared to other Canadian banks, making it a safer bet.

Foolish takeaway

There is a rare chance that airline stocks can deliver phenomenal returns to shareholders. It depends on whether the industry can bounce back from the ongoing recession. However, it is not guaranteed that it can happen. The pandemic will have far-reaching consequences, even after the world recovers.

People might not feel as inclined to travel for pleasure because of potential health crises, or because they will be working on walking off the effects of the recession. TD Bank, on the other hand, presents a safer option.

If you have a high tolerance for risk, AC could be worth your while. If you want to decrease the risk to your capital, TD could be a safer stock to consider.

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Author
adamothman