



Forget Air Canada (TSX:AC) Stock—Buy Banks Instead!

Description

For those who like buying beaten-down stocks on the dip, **Air Canada** ([TSX:AC](#)) looks mighty tempting. After falling over 60% in the COVID-19 market crash, the stock is looking cheap—at least based on price. While Air Canada is getting more expensive *relative to earnings* with each losing quarter, the decline in the stock price does look like a buying opportunity. To some.

Unfortunately, it's probably still not safe to buy AC stock today. The company looks destined for another losing quarter in Q3, and doesn't expect to get back to 2019 revenue levels for three full years. Basically, this stock could very well fall even further than it has fallen already.

But there is *one* beaten down COVID-19 play that may be worth looking at: *banks*.

Like Air Canada, the Big Six banks were beaten down badly in the COVID-19 market crash. Unlike Air Canada, they're actually starting to recover. Just recently, we saw two major banks post some very enticing looking earnings. At today's prices, they would be much safer investments than Air Canada.

I'll explore those two banks in just a minute. First, let's take a look at why AC stock is still in for at least another quarter of pain.

Why Air Canada will remain in poor shape for at least another quarter

Many Air Canada bulls believe the company will [inevitably recover](#). The company is so important to the national economy that it would never just be allowed to die; it would get a bailout if it truly needed it.

Over an *extremely* long timeframe, that reasoning might make sense. Air Canada has faced bankruptcy before, and usually it has received the money it needed in time to avoid a true disaster.

However, in the short-to-medium term, Air Canada is still in a lot of trouble. In the second quarter, the company lost \$1.75 billion, and it hasn't managed to reinstate most of its international routes since then. In fact, it recently cancelled 30 regional routes. That may help cut costs somewhat.

Unfortunately, airlines are capital intensive businesses that can't just scale down operations to zero to save money. AC's interest expense alone is over \$150 million a quarter. So until the company is able to re-open its international routes, it's going to run losses. Probably in excess of \$1 billion a quarter.

Why banks are recovering faster

Banks, like airlines, got hit hard in the COVID-19 market crash. However, they're recovering much faster. In the third quarter, **The Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) delivered \$1.21 in earnings per share, up from \$0.8 in the second quarter. That's a 51.25% sequential earnings growth rate! The **Royal Bank** posted similar results, too, beating on earnings for the third quarter.

Why are banks recovering so quickly?

Put simply, risk factors are starting to fade. Banks actually never lost much revenue because of COVID-19. Their earnings declined because they had to cover estimated losses. During the crash, it looked like banks were going to face a lot of defaults on mortgages, oil & gas loans and credit card debt.

Fortunately, it's beginning to look like most aren't materializing. In the third quarter, TD decreased its [Provisions for Credit Losses](#) (PCL) from \$3.2 billion to \$2.2 billion (sequentially). That means it expects fewer loans to default. As a result, its earnings are beginning to climb.

Overall, bank stocks like TD are definitely not the worst thing you could be holding right now.

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