



## Air Canada (TSX:AC) or Suncor (TSX:SU): Which Is the Better Turnaround Play?

### Description

**Air Canada** ([TSX:AC](#)) and **Suncor** ([TSX:SU](#)) are two Canadian stocks that have been completely decimated by the coronavirus crisis. Both the air travel and energy sectors have been feeling the full force of the COVID-19 impact.

The longer we're stuck in this pandemic, the more pressure will be put on the shoulders of both companies. With the Canadian economy expected to bounce abruptly in 2021, however, shares of both companies should not be ruled out, especially given their absurdly low traditional valuation metrics that are close to the lowest they've been in recent memory.

Suncor is more of a [deep-value investment](#), and Air Canada is more of a make-or-break speculative bet. The latter name offers greater medium-term upside potential. Still, the former, with its Fort-Knox-like balance sheet, is in a far better spot to continue rolling with the punches if we're due to be stuck in this pandemic-plagued "new normal" for another few years.

This piece will have a closer look at the risk/reward trade-off of both turnaround plays.

### Air Canada

Air Canada is between a rock and a hard place right now. While management has done [a great job](#) of battering down the hatches to reduce cash burn while raising ample liquidity, it remains hard to tell whether Air Canada will make it through this pandemic under its own footing when you consider the wide range of possibilities with this pandemic.

Simply put, airlines won't be too economical in the "new normal" where physical-distancing practices and masks are encouraged. Many people are reluctant to fly in the skies these days, even though active cases of COVID-19 aren't as high as it was earlier in the year.

As long as COVID-19 is still out there, many non-essential travellers will probably opt to stay at home, even if Air Canada were to further amp-up safety practices by blocking off middle seats across its flights.

The longer this pandemic drags on, the more weight will be put on the shoulders of the airlines. Some will fall under the weight, but other highly liquid ones, like Air Canada, may be able to outlast many of its peers in the space, improving its chances of remaining standing once this pandemic ends.

For an all-or-nothing bet like Air Canada, I'd say the strength of your stomach matters more than your risk tolerance. It's going to be a turbulent ride, so if you want to punch your ticket to outsized gains, fasten your seat belt and stand by your thesis, as there's likely to be plenty of bad news that'll be coming out of the pipeline.

## Suncor

Suncor is one of the best fossil fuel energy companies in the Albertan oil patch. The company has a stellar balance sheet following its dividend reduction and looks in good shape to ride out another hailstorm in the oil scene.

Although Warren Buffett's vote of confidence in Suncor, *Mad Money* host Jim Cramer thinks that there's no more money to be made in oil and gas stock anymore. Cramer thinks oil stocks are in the "death knell phase," and that fossil fuel plays have become akin to tobacco stocks.

With that in mind, it's tough to justify an investment in any of the ailing fossil fuel producers, even with the unprecedentedly cheap multiples that they've been slapped with following the COVID-19 sell-off.

Cramer is right in that fossil fuel producers will have a tougher time gaining investment from retail and institutional investors, as green energy continues to pick up momentum over the years. That said, there's some money to be made in premier fossil fuel producers at this juncture.

Suncor is a best-in-breed player that's down, but I don't think it's out. At a 10% discount to book value, Suncor looks to be a low-cost way to ride a rebound once oil demand has a chance to normalize.

## Foolish takeaway

In the case of upside potential in the battle between Air Canada and Suncor, Air Canada wins. But with the name, you'll be bearing far more risk than the likes of a Suncor given Air Canada's burning through wads of cash and Suncor still generates a decent amount of cash flow from its robust integrated businesses.

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