



Royal Bank of Canada (TSX:RY) vs. Air Canada (TSX:AC): Which Stock Should You Buy?

Description

Banks and airlines were among the sectors hit the hardest by the COVID-19 market crash. With international travel grounded and loans called into question, they both suffered huge earnings misses. Now, however, investors are beginning to smell value in these beaten-down sectors.

Air Canada ([TSX:AC](#)) and **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) have been two of the biggest beneficiaries of the bargain hunting. Both up more than 30% since March 23, they're leading the recovery while tech falters.

In many ways, these stocks are different. Banking and airlines are far from similar businesses, and, as you're about to see, they're behaving very differently in 2020. However, both stocks stand to benefit from an economic recovery. Between the two, then, which is the better buy?

The case for Royal Bank

The biggest thing Royal Bank has going for it is that its actual business is recovering from the COVID-19 damage it sustained. In its most recent quarter, profits *surged* compared to the quarter before and were down only slightly (2%) from the prior year quarter. That's thanks in no small part to a reduction in [provisions for credit losses](#) (PCL). When a bank increases its loan-loss estimates, earnings go down. When it decreases them, earnings go up. RY benefited from lower loan loss estimates in Q3. Additionally, it saw a surge in profit at its capital markets business, where earnings increased by 45%.

The case for Air Canada

The biggest thing Air Canada has going for it is that it has *more upside* than Royal Bank IF it manages to recover. While a lot has been written about Air Canada's rally in the past few months, the stock [remains down more than 50% for the year](#). It's a company that is seriously at risk of bankruptcy, and investors aren't going to let it go back to pre-COVID prices any time soon.

That's precisely why this stock has so much upside in a best-case scenario. Investors are pricing AC for a slow and drawn-out recovery. If it surges back to 2019 revenue and earnings levels faster than anticipated, then its stock is going to soar. With Royal Bank down only 11% from its pre-COVID levels, the upside is muted. Air Canada has further to fly if everything goes absolutely perfectly.

Foolish takeaway

I started off this article asking which, between AC and RY, is the better buy.

The actual answer is that it depends on what you're looking for. RY is easily the "safer" bet, as the company is already recovering from its COVID-19 losses. However, a lot of that recovery has been priced in already, so upside is muted. With AC, however, you've got a far riskier play but more upside in a best-case scenario. If you want safety and dividend income, go with RY. If you want to gamble a bit, go with AC.

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2. TSX:AC (Air Canada)
3. TSX:RY (Royal Bank of Canada)

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Date

2025/08/25

Date Created

2020/09/20

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