Should You Risk Investing $1,000 in Suncor (TSX:SU) and Air Canada (TSX:AC) Stock?

Description

Suncor Energy (TSX:SU)(NYSE:SU) and **Air Canada** (TSX:AC) have lost more than three-fifths (or over 60%) of their value as the pandemic demolished demand for oil and air travel. As they are trading cheap, investors should consider the factors that could drive both these stocks higher before investing.

I do not doubt that both Suncor and Air Canada are likely to regain their lost ground. However, the clouds of uncertainty make it tough to predict how long the shares of these companies will continue to trade cheap and at what pace the recovery might come.

As for Suncor, a rise in economic activities and OPEC+ nations' active management of market and prices brings a glimmer of hope. Meanwhile, resumption of the domestic flights and expected decline in cash burn rate is positive for Air Canada. However, these factors aren't enough to lift the share prices of both these companies, especially with the rising COVID-19 infections.

Until there is a medical breakthrough for the treatment of the deadly virus and acceleration in demand, neither of these companies are not likely to reach the pre-pandemic levels anytime soon. However, if you have an appetite for risk, both Suncor and Air Canada could be a bet worth taking on given the massive erosion in value.

Air Canada

What's essential for the recovery in Air Canada stock is the return in customer demand. While I expect a gradual pickup in passenger volumes, it is likely to take about two to three years before the airline companies start to see pre-pandemic level capacity.

With the gradual increase in demand, I believe Air Canada's revenues could show sequential improvement. Also, its net cash burn could go down on a quarter over quarter basis.

In the most recent quarter, Air Canada's top line plunged 89%, reflecting a drop of 96% in total passenger volumes. Meanwhile, the company reported a net cash burn of $1.72 billion and a net loss of $1.8 billion.

Investors should note that travel restrictions and grounding of its passenger flights took a toll on its financial performance. However, with the resumption of the flights in the domestic market, increased cargo capacity and cost containment measures, Air Canada’s financial numbers could show improvement in the second half of the year.

However, investors should take caution as Air Canada stock is likely to remain volatile in the foreseeable future. Investors, willing to hold its stock for long, can benefit significantly from the recovery .

Suncor Energy

As China recovers sharply and unlocking process gathers steam in India, the oil demand could witness an uptick in the coming months, which should support energy companies like Suncor. Also, better coordination among OPEC+ nations on the production cut and compliance issue is an encouraging sign.

Suncor’s integrated business model and significant cost-cutting measures should help the company in navigating the crisis. Meanwhile, the company should benefit from the recovery in demand. Its strong balance sheet, no immediate debt maturities, and ample liquidity are positive. Besides, its low valuation looks attractive.

The massive decline in Suncor’s stock price presents an excellent entry point for long-term investors to benefit from outsized growth.

CATEGORY

1. Coronavirus
2. Energy Stocks

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:AC (Air Canada)
3. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus

2. Energy Stocks

Date
2025/07/19
Date Created
2020/09/22
Author
snahata