



Better Recovery Stock: Air Canada (TSX:AC) vs. Aurora Cannabis (TSX:ACB)

Description

There was an air of optimism surrounding the Canadian and global economy heading into the late summer and early fall. Hopes were high that a COVID-19 vaccine could be approved before the end of the calendar year. Moreover, the scaling back of restrictions in Canada and in other developed countries had seen a return to some form of normalcy. Unfortunately, dark clouds are beginning to form again. Today, I want to look at **Air Canada** ([TSX:AC](#)) and **Aurora Cannabis** ([TSX:ACB](#)) (NYSE:ACB). Which has the better shot at a recovery in 2020? Let's dive in.

Second wave: Has Air Canada's recovery been grounded in 2020?

Air Canada stock has plunged 11% week-over-week as of close on September 28. There was legitimate reason for [hope](#) for Air Canada and the rest of the airline industry in the fall. The top Canadian airliner had moved to institute its own testing at airports in a bid to have governments second-guess quarantine regulations. As it stands, these restrictions are a massive hindrance for prospective international travellers.

That hopeful atmosphere has fizzled out in a matter of days. As of September 18, Air Canada and WestJet had cancelled over 430 flights between them. Air Canada saw passenger revenues plunge 95% year over year in the second quarter of 2020. This resulted in 20,000 layoffs and saw the airline go through nearly \$20 million a day. Moreover, air traffic in August dropped by two-thirds compared to the previous year according to Nav Canada.

The onset of a second wave of COVID-19 bodes ill for airliners. Provinces like Quebec and Ontario are drawing down to more restrictive phases in select regions.

Aurora Cannabis: Can weed stocks thrive in a recession?

In the spring, it was clear that the COVID-19 pandemic and subsequent lockdowns would spark an

economic downturn. Aurora Cannabis, the largest cannabis producer in Canada, has seen its stock drop 80% so far this year. Shares are down nearly 50% month over month. In a sector defined by disappointment, Aurora Cannabis may be the worst of the lot.

Cannabis qualifies as a “sin” industry along with alcohol and gambling-focused stocks. Because of this, I’d [discussed](#) whether it could be considered recession proof. Sales have been up and down during the pandemic. The legal cannabis business in Canada continues to battle a resilient black market. Moreover, a supply glut has put producers and retailers in a bind. The once-promising industry is mired in the muck.

Aurora Cannabis released its fiscal 2020 fourth-quarter results on September 22. Consumer cannabis net revenue fell 9% quarter-over-quarter to \$35.3 million. Volumes were up, but net selling prices plunged 30%.

Nelson Peltz, the billionaire investor who signed on with Aurora back in 2019, has concluded his relationship with the company. At the time, investors hoped that Peltz could score Aurora a home run partnership with a firm like **Coca-Cola**. His departure is symbolic of Aurora’s fall from grace and of the general state of the cannabis space. The enthusiasm in this sector has burned out.

Air Canada or Aurora?

As grim as the environment is for airlines, Air Canada still has a bright future. It will be forced to weather this catastrophic pandemic in the near term. For patient investors, now is a great time to add Canada’s top airliner for cheap. Aurora, on the other hand, inspires little optimism no matter how long your timeline is. I’m staying far away from the dismal Canadian cannabis sector.

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