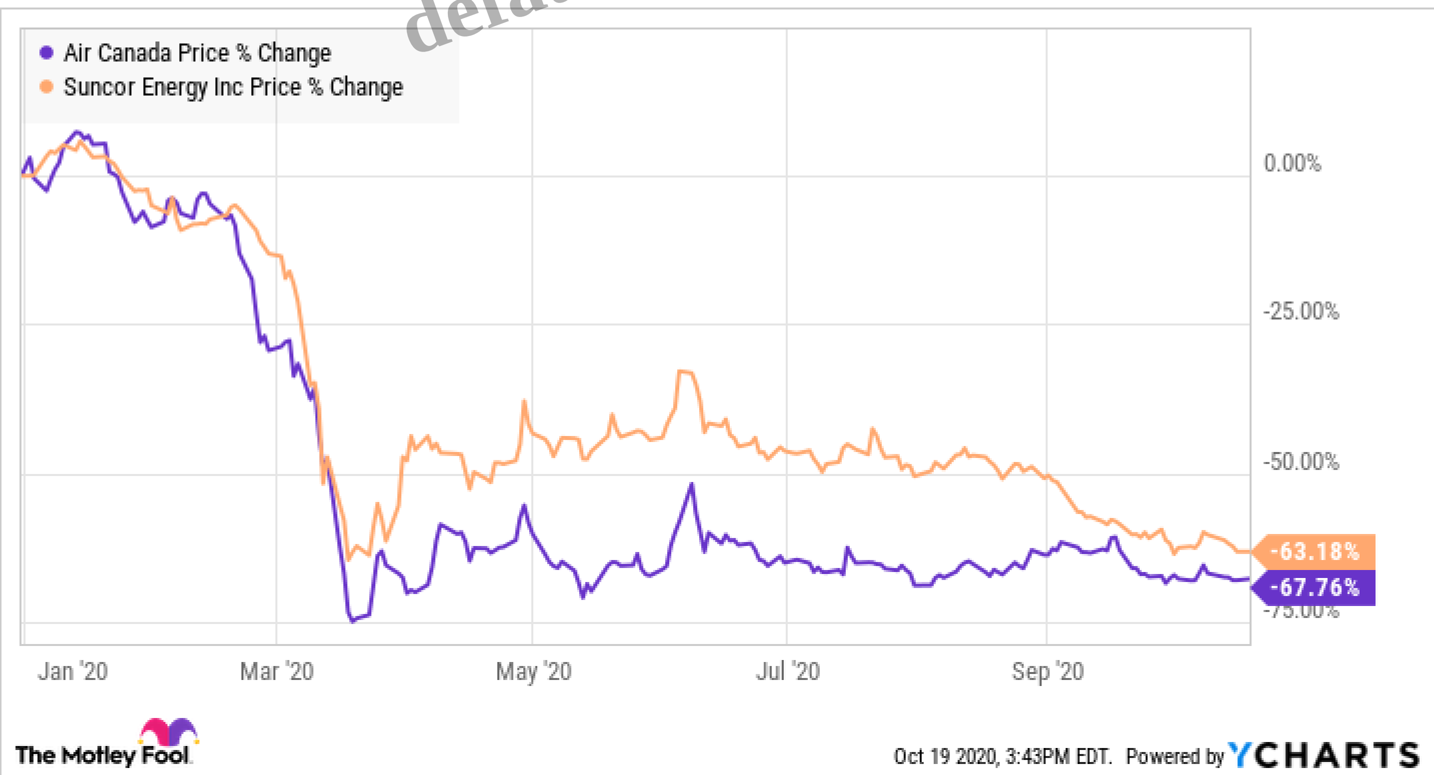
Better Buy: Air Canada (TSX:AC) Stock or Suncor (TSX:SU) Stock?

Description

Both **Air Canada** (TSX:AC) stock and **Suncor Energy** (TSX:SU)(NYSE:SU) stock have declined more than 60% year to date. Which is a better contrarian buy?

The first COVID-19 case was detected on December 31, 2019, but the situation started looking serious in March, as global cases started surging. So, it's a good exercise to take a look at the year-to-date price action of the battered stocks.



Data by YCharts. Year-to-date price action of Air Canada stock and Suncor stock.

Which of Air Canada stock and Suncor stock is more likely to survive?

Which of AC stock and Suncor stock has a greater chance of surviving the next year?

Investopedia explains that “the current ratio is a liquidity ratio that measures a company’s ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.”

AC stock’s current ratio is 1.2 times compared to 0.9 times a year ago. Suncor stock’s current ratio is one times, which is flat compared to a year ago. Both companies have what it takes to meet their short-term obligations over the next year.

The Altman Z-score is a formula that can be used to predict the probability of a company going bankrupt. The formula takes account of the company’s profitability, leverage, liquidity, solvency, and activity ratios.

Air Canada’s Z-score is 0.7, down from 1.2 a year ago. Suncor’s is one, down from 1.8. So, both companies have a higher probability of becoming insolvent longer term compared to a year ago, if the current challenging operating environment persists. However, Suncor Energy is in better shape versus Air Canada.

Recent impacts

Due to COVID-19 and air travel restrictions, in the second quarter (Q2), Air Canada’s revenue plunged 89% against the prior year’s period. For the first half of the year, its revenue dropped by 54%.

In its Q2 news release, Air Canada projected “a net cash burn of between $1.35 billion and $1.6 billion (or between $15 million and $17 million per day, on average) in the third quarter of 2020.” This projection includes capital expenditures and lease and debt-service costs.

Although it had a Q2 operating loss of nearly $1.6 billion, Air Canada was able to increase its liquidity to $9 billion and triple its cash and equivalents to $5 billion.

Due to a lower energy demand, Suncor’s Q2 revenue plunged 58% against the prior year’s period. For the first half of the year, its revenue dropped by 39%.

Suncor reported an operating loss of nearly $1.5 billion in Q2. At the end of Q2, it had more than $1.8 billion of cash and equivalents, which is down from more than $2 billion a year ago.

The Foolish takeaway

Currently, Suncor pays a quarterly dividend of $0.21 per share. At $15.58 per share at writing, it equates to a yield of nearly 5.4%. The company also has an investment-grade S&P credit rating of BBB+. There's no doubt its stock price will be much higher post the pandemic.

Suncor stock has an average 12-month price target that suggests 88% near-term upside potential. Moreover, investors get a nice dividend income while they wait for price appreciation.

Analysts think AC stock has 37% near-term upside potential. However, on a longer-term economic expansion after the pandemic, the stock could experience more persistent price appreciation than Suncor.

Between the two, Suncor is a safer bet in the near term, as it offers a good balance of income and upside.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing

POST TAG

1. Editor's Choice

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

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2. Koyfin
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