# Suncor (TSX:SU) or Air Canada (TSX:AC): Where to Invest $500

### Description

As the pandemic brought one of the sharpest selloffs in the stock market, shares of **Suncor Energy** (TSX:SU)(NYSE:SU) and **Air Canada** (TSX:AC) have lost a significant portion of the value. While most of the stocks listed on the Toronto Stock Exchange recovered their lost ground, the resurgent virus is limiting the recovery in Suncor and Air Canada stocks.



While the uncertain outlook for energy demand weighs on the crude oil prices and hurting Suncor stock, the virus's continued spread is hurting air passenger volumes and has kept international borders closed, thus taking a toll on Air Canada.

While I admit that both these stocks could continue to face challenges in the near-term, the considerable amount of decline in both these stocks makes them attractive. However, should you risk investing your $500 in one of these beaten-down names at the current levels? Let's take a closer look.

## Is Air Canada stock a buy?

While the international borders remain closed, passenger airline companies are witnessing a gradual increase in the volumes, thanks to the resumption of domestic operations. However, the recovery in domestic volumes remains low as passenger sentiments remain negative amid increasing infections.

While low volumes are likely to hurt Air Canada's revenues and profitability in the near-term, its net cash burn rate could show sequential improvement, which is encouraging. Earlier, Air Canada projected net cash burn to be between $1.35 billion and $1.6 billion in 3Q compared to over $1.7 billion in 2Q.

The deceleration in net cash burn rate and expected improvement in capacity could ease some pressure on its bottom line. However, investors should note that Air Canada stock could take at least several years before returning to the pre-pandemic phase.

## Should you bet on Suncor Energy?

Suncor Energy stock continues to trade low as surging coronavirus cases, extensive global crude inventories, and uncertain economic trajectory restricts oil price recovery. However, with the uptick in economic activities, the oil demand is expected to show improvement, supporting Suncor Energy stock's upside. Besides, the unlocking process in India and a strong economic rebound in China is a positive development.

Suncor's integrated business model reduces some of the price risks. Meanwhile, its focus on optimizing its product mix by increasing the production of high-value synthetic crude maximizes its per-barrel margin.

Further, Suncor Energy's focus on cost reduction measures and strong liquidity should help the company to remain afloat amid challenges. Though the company reduced its dividends by 55% to boost liquidity, its current dividends represent a healthy annual yield of 5.1%.

## Final thoughts

While both the companies are hit hard by the pandemic, the reopening of the economy is likely to support the recovery in Suncor Energy and Air Canada stock. Further, the significant decline in value suggests that both of these stocks' risk-reward ratio remains almost the same at the current levels.

However, the recovery in both these stocks could take long, and investors with a medium to long-term outlook are likely to benefit the most from the rebound in growth in these stocks.



**CATEGORY**

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks

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