# Air Canada (TSX:AC) and Another Stock Are Poised to Soar in 2021

## Description

With the broader U.S. indices up on one of the worst years in recent memory, one has to think that 2021 will be an even better year, given it could hold the end of the pandemic and a profoundly sharp economic recovery, the likes of which we may never have seen before. While it's tempting to go all-in on the riskiest of cyclical stocks at this juncture, I'd urge investors not to rule out the potential for negative surprises in the new year and to continue maintaining a balance between defence and offence, or pandemic-resilient stocks like **Loblaw** and high-upside reopening plays like **Air Canada** (TSX:AC).

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You see, the end of the pandemic isn't guaranteed in the new year. While it's looking likely, given the remarkable efficacy rates of the COVID-19 vaccines in hand, negative surprises can still happen, and they tend to come up when we, as investors, least expect them. Whenever sentiment is too bullish, some tend to let their guards down, which exacerbates the magnitude of future market crashes or corrections.

This piece will have a look at three TSX stocks that I think could surge in 2021. The first name is a dirt-cheap defensive that's been overly hit amid the recent defence-to-reopening rotation, while the second one is a riskier reopening play with options-like upside. The latter name is suitable for fearless young investors who can afford to take high risks, while the former is a dirt-cheap name that's a great contrarian buy for growth and value investors alike.

# Alimentation Couche-Tard

While **Alimentation Couche-Tard** (TSX:ATD.B) may not be the biggest beneficiary of a sustained economic reopening, I think its shares so are undervalued that they're overdue for a potentially sharp correction to the upside. Why? Not only has Couche stock been kept lower due to the broader market rotation out of pandemic-resilient defensives, but it seems like many are growing impatient with the firm, given it hasn't been active as it could have been with its massive cash and credit position.

The firm has a tonne of liquidity and apparently, not enough M&A opportunities amid the pandemic-plagued environment. While the depressed valuation (shares trade at a ridiculously low 14 times trailing earnings at the time of writing) seems to suggest that the best growth days are over, and management may have no other than to use its cash pile to hike its dividend at an above-average magnitude.

While Couche could easily hike its dividend such that its yield doubles or even triples of what it yields today (0.8%) to cater to the more income savvy and potentially win investors from its top peer **Parkland Fuel**, which sports a 3% yield, I think the best use of the funds is to keep it locked and loaded on the sidelines, so management is ready to scoop up an elephant once the price is right.

Couche is gushing with cash and just crushed its last quarter. Yet investors seem to value the name like it's going out of style. I'd capitalize on the opportunity by scooping up shares, as they continue to fall out of favour of the "sexier" reopening plays.

## Air Canada

Speaking of sexy reopening plays, Air Canada is among the sexiest of them all, at least on the TSX. With a potential end to the pandemic now in sight, I believe Air Canada is one of the most compelling options for younger investors on the hunt for options-like upside over the coming 18 months. While the stock will be a turbulent ride, I ultimately see Air Canada stock soaring once COVID is conquered and people rush to buy tickets to exhaust their pent-up demand for travel.

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While some pundits expect a modest recovery in air travel once the pandemic ends, I see a lagged V-shaped recovery, with the discretionary spending boom on the horizon and the likelihood that many people are itching to go places after more than a year of self-isolation, quarantine, and the "new normal."

In the meantime, Air Canada could be headed back to the teens, as new travel restrictions and lockdowns could happen before the next leg up. Regardless, I think the dip in AC stock is buyable for those seeking outsized gains in 2021 and beyond.

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joefrenette

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