TFSA Investors: 1 Stock to Avoid in Early 2021 and 1 to Buy

Description

The stock market staged an impressive recovery in 2020. Tax-Free Savings Account (TFSA) investors now wonder where they can get decent value and which stocks might be best to avoid in 2021.

Is Air Canada stock expensive now?

Stocks that rallied significantly on the positive COVID vaccine news might be getting ahead of themselves as we start 2021. **Air Canada** (TSX:AC) is one to watch.

The vaccine rollout will take a long time to reach the broader public. Most people won't get the shot until the summer. In the meantime, travel restrictions are getting tighter as the second COVID wave spreads across developed nations.

Canada just announced it will require all air travellers entering the country to prove they have tested negative for the virus within the past 72 hours before boarding the plane. At the same time, the 14-day quarantine rules remain in place. This could put added pressure on flight bookings. It also indicates the government isn't in a hurry to lift existing restrictions.

Air Canada stock trades near $23 per share at the time of writing. That's up from $15 two months ago. The situation for the airline industry has arguably gotten worse in the past eight weeks, so the stock looks overbought. Air Canada traded for $50 a share at the beginning of last year when demand was strong and profits robust.

Now, the company is expected to report net cash burn of roughly $1 billion for Q4 2020 and a capacity drop of at least 75% from the same time last year. Even with optimism on a return to more normal conditions in late 2021, the stock appears expensive.

Uncertainty around the bailout discussions with the government makes the situation even more precarious. Restrictive and expensive bailout conditions imposed on Air Canada could send the share price back to the 2020 lows. As such, TFSA investors should probably consider other opportunities for the first half of 2021.

Should Enbridge stock be on your 2021 buy list?

The energy infrastructure sector took a beating in 2020 and still trades at depressed levels. Oil and gas fell out of favour amid the crash in oil prices and investors shifted money to renewable energy stocks. The renewables trend should remain strong in the coming years, but the sector is likely fully valued right now after the huge 2020 run.

Enbridge saw throughput drop along its oil pipeline network in 2020. The plunge in fuel demand caused by lockdowns and travel restrictions meant refineries needed less crude oil feedstock from producers. Enbridge moves about 25% of the oil produced in Canada and the United States.

Global gasoline usage is expected to recover to 2019 levels by the end of 2021. Jet fuel demand will take longer to rebound. Enbridge's oil pipelines normally operate near capacity, so the outlook in the second half of the year should improve for that group. Enbridge generated solid results in 2020 despite the challenging environment. The natural gas transmission, gas storage, gas utility and renewable energy businesses all performed well.

Enbridge raised the dividend near the end of last year and expects capital programs to support growth in distributable cash flow of 5-7% per year over the medium term. That's decent guidance and the positive outlook likely isn't reflected in the share price today.

TFSA investors can buy Enbridge stock for close to $41 to start 2021 and pick up a solid 8% dividend yield. If the stock simply treads water, you get a great return on the investment.

It wouldn't be a surprise to see Enbridge stock drift back up to $50 by the end of the year.

The bottom line for TFSA investors in 2021

A market correction is a strong possibility in the next few months given the stretched valuations in several sectors. As such, it makes sense to avoid the higher-risk names and look for existing deals that pay you well to wait for the rebound.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:AC (Air Canada)
3. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/07/02
Date Created
2021/01/04
Author
aswalker