Forget Air Canada Stock: Find Better Value in This Stock

Description

Analysts anticipate that travel demand will be lower even after the pandemic. Specifically, they believe that business travel demand will shrink, because many companies have found that meeting virtually on applications like **Zoom** gets the job done and is much more cost effective.

So, post-pandemic, don't expect **Air Canada** (TSX:AC) stock to trade immediately at its pre-pandemic high of north of $50 per share. Perhaps a price target of about $40 per share is more reasonable. And it could take at least two to three years for AC stock to return to the $40 level.

Let's be more conservative in our projection. If Air Canada stock takes three to five years to trade at $40, buyers at about $21.50 per share today will achieve annualized returns of 13-23%. That would outperform the long-term average market returns of 7-10% per year. However, investors are also taking on greater risks for that potential outperformance.

Subsequent waves and variants of the coronavirus are prolonging pandemic economic disruptions, heightening the risk in an investment in Air Canada stock as well as keeping the stock price down.

Debt also weighing on Air Canada stock

Let's not forget that last year, Air Canada stock took on a lot of debt, which is weighing on its balance sheet. Its long-term debt-to-capital ratio has risen to 75%. As a result, it has a non-investment grade S&P credit rating of B+.

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

Despite laying off about half of its workforce and cutting costs down dramatically, Air Canada still burned cash of about $13 million *a day* in Q4 2020.

Air Canada's last 12-month Z-score is 0.29, down from 1.26 a year ago. So, the company's financial position is much more stretched now.

Buy industrial stocks to secure upside

If you're looking for stocks with considerable value and more secure upside post pandemic, I would suggest investors investigate the industrials sector.

The sector has been more impacted than most and is set for a strong rebound on economic recovery. And there are still lots of value to be found with substantial upside potential.

Particularly, I'd encourage investors to take a closer look at **Brookfield Business Partners** (TSX:BBU.UN)(NYSE:BBU). The industrials company targets returns of 15-20% on its investments with a focus on capital appreciation.

The company reported a 2020 net loss of US$169 million, or -US$1.13 on a per-share basis. However, its strength is highlighted with the company's EBITDA, a cash flow proxy, which increased 14% year over year to US$1,384 million. This was largely due to increased EBITDA in its Business Services and Infrastructure Services segments, partially offset by a lower contribution from its Industrials segment.

The company's funds from operations (FFO) that dropped 21% to US$870 million, also wasn't that bad given the far-and-wide pandemic impacts. In fact, excluding gains/losses from acquisitions/dispositions, FFO actually climbed 4% year over year (down 3% on a per-share basis).

The reason was that 2019 was a wonderful year in which it was able to recognize after-tax gains of US$338 million versus only US$78 million in 2020. This illustrates BBU's ongoing strategy to buy businesses, improve operations, and sell businesses when it makes the most sense.

BBU is a listed subsidiary of **Brookfield Asset Management**, which is known for its alternative asset management prowess and excellence as an operator of real assets.

Only companies led by the best management had excess capital to buy back shares when they were cheap last year. Indeed, BBU was able to buy back shares during a stressful economic period last year, essentially cancelling about 2.3% of its outstanding shares.

The turnaround stock is undervalued and can appreciate 22% over the next 12 months according to the analyst consensus. However, holding BBU stock for the long haul will be a smarter move, as it aims for returns of +15%, which should lead to market-beating returns.

Because there are so many better-quality value stocks like BBU available on the market, there is no rush to jump into Air Canada stock right now.

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2. Stocks for Beginners

POST TAG

1. Editor's Choice

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3. TSX:BBU.UN (Brookfield Business Partners)

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