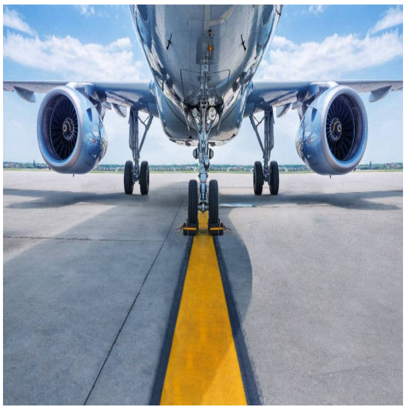

Forget Air Canada: 1 COVID-19 Recovery Stock With a Better Risk/Reward Scenario for 2021

Description

Air Canada (TSX:AC) is one of the more popular TSX-traded reopening plays out there. The thesis is that once the COVID-19 pandemic is over that travel restrictions will be off the table, and business, as well as AC stock, will be taking to the skies once again.

default watermark

We have a slate of safe and effective vaccines that could eliminate the insidious coronavirus into the year's end. And while Air Canada's recovery trajectory could stand to be more muted than more domestically focused airlines, I still think Air Canada stock remains cheap relative to its profitability prospects beyond 2022.

That said, one must never discount to effects of a potential third or even fourth wave of COVID-19 that a variant of concern could fuel. Today, COVID-19 cases across the country are winding down, and partial economic reopenings are underway, with a careful eye on several variants of concern — most notably the one discovered in South Africa. However, one must not assume that it will be smooth sailing for Air Canada to the post-pandemic world. Major bumps in the road could lie ahead, and the stock could easily get pummeled again.

Air Canada still has more than its fair share of risks

While there may now be more clarity on the vaccine timeline, the future remains as uncertain as ever, with mutated strains that could prolong the pandemic for longer than expected. Air Canada is ready for things to get worse, though, with its reduced cash burn, its improving balance sheet, and the likelihood of further government relief should things take a turn for the worst.

There's no telling if Air Canada stock has bottomed here or if its price is due to flirt with single-digit territory before its major comeback. As a part of a balanced barbell portfolio, Air Canada stock is a great reopening play. AC stock isn't the only reopening play in town, though. While it may be a popular, more obvious one, I see battered reopening plays that appear to have a better risk/reward trade-off at the time of writing.

WestJet's parent may offer a more attractive risk/reward than AC stock

Consider shares of WestJet Airlines's parent **ONEX** (TSX:ONEX). The firm has been feeling the pandemic's impact but is in a great position to come roaring back, regardless of *when* the pandemic ends.

The firm isn't bleeding cash rapidly such that it'll require generous government relief, making it a far "safer" way to play an economic reopening. ONEX is standing on some pretty strong financial footing, with a 2.4 quick ratio and a 0.63 debt-to-equity ratio. Such a solid balance sheet suggests that ONEX is likely to rise out of this pandemic under its own power.

default watermark

For those unfamiliar with the name, ONEX is a Canadian private equity firm that scooped up WestJet Airlines around a year before the pandemic struck.

The stock crumbled in the 2020 market crash, but shares have been steadily climbing back since, now up 75% from their March lows. Other investments under the ONEX umbrella have also been under pressure, but they're also due to have a weight lifted off their shoulders once COVID-19 is finally conquered.

Why do I like WestJet's parent over Air Canada?

ONEX is run by terrific managers with a proven track record of putting the **TSX Index** to shame. COVID-19 crisis aside, I still think they're capable of generating meaningful alpha over time. With the price of admission (0.78 times book) at the lower end, I think the risk/reward to be had in the name has never been better.

Although I'm a fan of owning Air Canada stock for the long haul, I think ONEX is a far less risky reopening bet for those who desire a greater margin of safety.

CATEGORY

1. Coronavirus
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:ONEX (Onex Corporation)

PARTNER-FEEDS

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

Category

1. Coronavirus
2. Investing
3. Stocks for Beginners

Date
2025/08/20
Date Created
2021/02/22
Author
joefrenette

default watermark

default watermark