1 Stock With Far More Potential Than Air Canada (TSX:AC) in 2021

Description

I don't think there is any question that investors across the country know **Air Canada** (TSX:AC) stock has some major recovery potential. However, just because it has the potential to recover doesn't mean that it will materialize.

There are several risks with Air Canada's business that could threaten a recovery. So, although there are natural risks to any investment, at the moment, the risks of an investment in Air Canada are more prominent than usual.

This means Canadians have to weigh if an investment is worth it. Of course, there is some recovery potential, but is it enough to make Air Canada stock worth taking on all the risk?

Air Canada stock's return potential

Analysts have consistently updated their target prices and kept up to date with all the various developments with its business and industry. Currently, the average analyst price for Air Canada stock is just $27. That's less than 10% above Thursday's closing price of $25.11.

Of course, the actual returns could always be higher or lower. But with several analysts covering the stock, using this target price is a good measure today.

Investors are hoping that the company can recover quicker than is expected and the fair value of Air Canada will increase. That could increase Air Canada's return potential far more than just the 10% discount it's offering today.

However, that's still a long shot. And even if a faster recovery does materialize, as you'll see, several Canadian stocks are offering far better returns over the next year and beyond.

Plus, at this point, things can only get worse for Air Canada. Canada won't be vaccinated any earlier than is already planned, and, if anything, the timeline will have to be pushed.

Furthermore, we still don't have much clarity on what the industry will look like after developed nations are vaccinated, but some third-world countries are still in the process.

So, it's important to keep these risks in mind when you're considering which investment makes the most sense for your portfolio.

Here is one of the top Canadian stocks to consider instead of Air Canada.

A top recovery stock to buy over Air Canada

One of the main reasons investors are interested in Air Canada is for its recovery potential. It wasn't the airline's fault that the coronavirus pandemic impacted operations. So, investors think that as it recovers, it could offer plenty of upside potential.

There are several stocks in this situation, though, and almost all of them are more attractive than Air Canada today. One of the most attractive stocks to bet on a recovery is **Freehold Royalties** (TSX:FRU).

Energy stocks have been on the road to recovery for the past few months, and Freehold is one of the top companies in the sector. It's one of the stocks I'd recommended investors buy at the start of 2021, and already in the first two months of the year, Freehold has gained more than 35%.

The Canadian energy stock receives a royalty payment on all the energy produced on the land it owns. This helps to minimize execution risk. Plus, because Freehold is in such a strong financial position, it's a super-low-risk energy stock.

The company was forced to trim the dividend early on in the pandemic. However, these days as its business rapidly recovers, many are expecting an increase to the monthly payout soon.

Bottom line

With plenty of recovery potential and a whole lot less risk, Freehold is a much better stock to buy than Air Canada today. Of course, this could all change at the drop of a dime.

However, for now, with the current outlook on the recovery of the pandemic and at these valuations, I'd rather own Freehold.

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2. TSX:FRU (Freehold Royalties Ltd.)

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