Forget Air Canada (TSX:AC): Instead Buy These 2 Canadian Stocks Under $30

Description

So, you are thinking of buying **Air Canada** (TSX:AC) because it soared more than 30% in the last 40 days. Don't make this mistake. AC is not a stock to buy when it rises, as it cannot sustain the rally for multiple reasons. It reported a $4.6 billion in net loss and $5 billion in net debt in 2020. And this doesn't end here. The airline is burning $15-$17 million cash daily, which means another billion-dollar loss in the first quarter. If the under-$30 stock price is attracting you to AC, there are much better Canadian stocks with lower risks.

Two Canadian stocks much better than Air Canada

Warren Buffett bid farewell to airline stocks and welcomed stocks where there is demand. You don't need to be a math genius to understand the Buffett logic. He doesn't use any complex algorithms to choose the stocks. He reads the annual report, where the company states risks and opportunities. He then looks at the company's cash flows, the demand environment, and whether the two factors will grow in the coming 10 years. He then invests accordingly.

To put it in layman's terms, when selecting a stock, see whether the company is making money and sharing its profits with its shareholders. With AC, all the above metrics are negative. There is air travel demand, but the travel restrictions have left planes empty. I already talked about the cash-burning situation. Hence, Buffett is staying away from airlines. He is instead investing in oil and telecom.

Here are two Canadian stocks under $30 that have better cash flows and demand than Air Canada.

Suncor Energy

Suncor Energy (TSX:SU)(NYSE:SU) stock is trading at $21.23 and has a dividend yield of 3.13% as of this writing. It is Canada's largest integrated oil company. It was hit during the pandemic, as the lockdown reduced air and road travel where oil is majorly used as jet fuel, gasoline, and diesel. The sudden dip in oil demand impacted oil prices. Suncor's average WTI crude oil price fell 30% from US$57.05 in 2019 to US$39.4 in 2020. This price dip pushed its free funds to flow to -$228 million in

2020 compared to $4.9 billion in 2019.

In the light of the pandemic, Suncor made several cost cuts and halved its dividend to sustain the reduced oil price. These cuts will increase profits and cash flows, as oil price and volume rise. The oil price has recovered partially from the pandemic peak, and experts believe oil demand will return to the pre-pandemic level by 2022.

When the oil demand recovers, Suncor could increase its dividend per share at an accelerated rate. Its stock also has room to grow another 50% if it recovers to the pre-pandemic level. A brighter future makes it a good buy at present.

But Suncor investment is not without risk. As oil is an essential commodity, Suncor cannot control its price. Economic activities impact oil demand and prices. Moreover, governments worldwide are pushing for cleaner energy. This shift in the energy sector will take years to come. Until then, their oil stocks will continue to give returns.

Telus stock

Similar is the case with **Telus** (TSX:T)(NYSE:TU) stock, which is trading at $25.85 and has a dividend yield of 4.82% as of this writing. The second-largest telecom operator in Canada saw accelerated revenue growth as the pandemic and 5G kicked in. As people moved online, there was increased usage of the internet. Telus's annual revenue growth increased to 5.5% in 2020 from 2% in 2019. The accelerated revenue growth increased its free cash flow by 54% to $1.45 billion. Hence, Telus increased its 2021 dividend by 6.8%.

The Wall Street analysts expect revenue growth of over 8% in 2021, which means higher cash flow. It has been paying incremental dividends for the last 16 years at an average annual rate of over 11%. The 5G wave will drive its demand, cash flows, and dividends in the coming years.

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