Forget Air Canada (TSX:AC): 1 Top Canadian Stock I’d Buy Instead

Description

Air Canada (TSX:AC) stock enjoyed a great rally in recent months on hopes that pandemic travel restrictions are coming to an end.

The airline will certainly see capacity improve, but investors have other top stocks to choose from that still appear undervalued and might be better bets as the economy reopens.

Why avoid Air Canada stock today?

Air Canada stock trades near $29 per share at the time of writing. That’s up from $15 in early November. The positive momentum on COVID-19 vaccinations in the United States and the U.K. bodes well for Air Canada in the coming months. These are key international markets for the airline, and the sooner the countries reach herd immunity, the better.

Canada is ramping up its vaccination program, and most adults who want a COVID-19 vaccine should have one by the end of the summer. This will help boost domestic travel, as provinces begin to relax quarantine rules on interprovincial movements.

Mainland Europe and the sun destinations, which are also major Air Canada markets, might see restrictions remain in place for longer. Europe faces a third COVID-19 wave right now. Mexico and other holiday spots are struggling with their vaccination progress.

In the Q4 2020 report Air Canada said it will burn through $15-17 million in net cash per day to start 2021. The Q1 results will be ugly, and the outcome of the bailout negotiations with the Canadian government remains uncertain. A deal will get done, but the devil is in the details. Commitments to restart regional services, refund cancelled tickets, or fulfill prior airline orders for new planes made in Canada could put pressure on the balance sheet and delay the return to profitability.

Based on the near-term uncertainties and the long road to a full recovery, the current valuation for Air Canada appears high.

Better stock to buy now

Investors with some cash available might want to consider high-quality dividend stocks that pay great distributions while you wait for the share prices to move higher. Let’s take a look at **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) to see why it might be an attractive stock right now.

Pembina Pipeline has a 65-year history in the Canadian energy sector. The company offers oil producers a variety of midstream services all along the hydrocarbon value chain. Pembina Pipeline grows through strategic acquisitions and organic developments with a solid portfolio of current and future projects.

Management moved quickly in the early part of the pandemic to raise cash and take a defensive position on the capital program. Now that the energy sector is back on track, the company is positioned well to move ahead on its growth prospects.

Pembina Pipeline pays its dividend monthly. The annualized yield is 6.75% near the current share price of $37 per share. The stock traded at $53 before the pandemic, so there is solid upside potential as the oil industry continues to recover.

Consolidation in the energy infrastructure industry is expected to ramp up in the next few years. Pembina Pipeline could become a takeover target by a larger competitor or a even global infrastructure fund. In that scenario, investors could see a nice buyout premium.

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Date
2025/08/28

Date Created
2021/03/18
Author
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