Forget Air Canada (TSX:AC): Buy This Top Pandemic Recovery Stock Instead!

Description

Air Canada (TSX:AC) stock has soared in recent weeks, as investors bet on a quick turnaround for the airline industry. The share price could move even higher on bailout news, but risks abound, and there might be better stocks to buy right now.

Is Air Canada stock still a buy?

Air Canada traded near $15 per share at the beginning of November. The stock now trades near $27 after pulling back from a run towards $30. Investors who'd bought near the lows last fall might want to book profits and search for new opportunities.

Why?

COVID-19 vaccines are rolling out at a good pace in the United States and the United Kingdom. Canada is starting to catch up. That's great news for Air Canada in these important markets. However, mainland Europe is battling a COVID-19 third wave and implementing new lockdowns. Air Canada's beach destinations are also struggling to get people vaccinated. Mexico, for example, is way behind on its program.

Travel within Canada should start to improve in the second half of the year. We could even see reduced restrictions on flights to and from the United States. Despite the positive outlook, the financial situation remains bleak.

In the Q4 2020 report Air Canada said net cash burn would likely be $15-17 million per day in Q1 2021. Travel restrictions could remain in place until at least the end of June, meaning the Q2 results won't be much better.

Investors hope a government bailout is on the way. An agreement on financial support is likely, but the deal could have expensive conditions. Refunds for cancelled flights would put a dent in the balance sheet. The early reinstatement of flights to regional cities might extend losses until demand rebounds. Rising oil prices and uncertainty around the future of business travel also pose recovery risks.

As such, Air Canada stock looks expensive right now.

A top Canadian stock I'd buy instead

The United States recently passed its $1.9 trillion stimulus program. Europe's recovery plan includes total stimulus of €1.8 trillion. Countries around the globe will unleash unprecedented efforts to drive economic growth. As a result, companies that benefit from a resurgence in the economy should perform well.

Canadian National Railway (TSX:CNR)(NYSE:CNI) is one of those businesses. The company has roughly 20,000 route miles of tracks connecting the Pacific and Atlantic coasts in Canada to the Gulf of Mexico in the United States.

CN moves nearly $250 billion worth of cargo each year. This includes everything from lumber, car parts, and grain, to coal, crude oil, fertilizer, and finished consumer goods. As the North American and global economies expand, demand for CN's services will grow.

CN invests the funds needed to stay competitive. The company also generates great free cash flow to support rising dividends and share buybacks. The board raised the dividend by 7% for 2021, and investors should see steady increases continue for decades.

Long-term investors have done well with the stock. A $10,000 investment in CN just 20 years ago would be worth about $200,000 today with the dividends reinvested.

The bottom line

Air Canada could break above $30 on news of a government aid deal, but the stock looks overbought considering the uncertain timeline for a return to profitability. It might be better to invest in other stocks that will perform well in the post-pandemic recovery.

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