Suncor Energy or Air Canada: Which Is a Better Reopening Play?

Description

Despite the rising COVID-19 cases, the Canadian economy continued to show strength, with its GDP growing by 0.7% in January. Further, preliminary estimates put February's GDP at 0.5%, representing the 10th straight month of economic expansion. With the Canadian economy showing signs of recovery, let's assess which among **Suncor Energy** (TSX:SU)(NYSE:SU) and **Air Canada** (TSX:AC) is a better reopening play.

Suncor Energy

The expectation of improvement in economic activities amid the ongoing vaccination drive appears to have driven oil prices higher, benefiting oil-producing companies, such as Suncor Energy. Given its integrated business model, the company is well positioned to benefit from rising oil prices.

Amid higher oil prices, the company's stock price has increased by 26.6% this year, comfortably outperforming the broader equity market. Despite the rise, Suncor Energy is still trading over 35% lower than its last year's January levels. Its valuation also looks attractive, with its price-to-book and forward price-to-earnings multiples standing at 1.2 and 17.6, respectively.

Meanwhile, Suncor Energy's management expects its production and refineries utilization rate to improve this year while its operating expenses could fall. Further, industry experts are projecting oil prices to remain elevated for the rest of this year amid the expectation of economic expansion and lower supplies. So, higher oil prices and improved operating metrics could drive the company's earnings and stock price in the coming quarters. It also pays quarterly dividends, with its forward dividend yield standing at 3.1%.

Analysts also look bullish on Suncor Energy. Of the 22 analysts covering the company, 15 have given a "buy" rating, while the remaining seven have given a "hold" rating. Analysts' consensus price target currently stands at $33.29, representing a return potential of 23.2%.

Air Canada

The pandemic-infused travel restrictions have severely hit the passenger airline industry, including Air Canada. Its top line declined by over 70% in 2020 to $5.83 billion. The company also incurred an operating loss of $3.78 billion compared to an operating income of $1.65 billion in the previous year. Further, the company burned $13 million per day or $4.67 billion in 2020.

Meanwhile, Air Canada has taken several cost-cutting initiatives; it slashed its headcount, reduced capacity, retired inefficient older aircraft, and lowered capital expenditures for the next three years. Further, the company has strengthened its financial position by raising capital at the beginning of the pandemic. As of December 31, the company's liquidity stood at $8 billion, which could allow the company to sail through this crisis. Further, the company's cargo vertical has delivered strong performance since its inception in March 2020. Meanwhile, the company has planned to build a robust and dedicated cargo fleet in the coming years.

However, with restrictions, such as mandatory 14-day quarantine for international travelers still in place, the passenger demand could continue to be weak in the near term. Meanwhile, the widespread distribution of vaccines could prompt governments to lift restrictions. Further, the bailout to the airline industry could significantly boost the company's stock price.

Meanwhile, analysts are bullish on Air Canada. Of the 19 analysts covering the company, 13 have issued a "buy" rating, while five have given a "hold" rating, and one analyst has given a "sell" rating. Analysts' consensus price target stands at $28.90, representing a 12-month return potential of 9.3%.

Bottom line

Although both companies are trading at attractive valuations and possess the potential to deliver superior returns in the long term, I would choose Suncor Energy to provide better returns, given Air Canada's near-term challenges and uncertain outlook.

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