



Should You Buy Air Canada or Suncor Stock Now?

Description

Airlines and energy companies took a beating last year, but the sectors have bounced back in the past five months. Investors who missed the rally are wondering if **Air Canada** ([TSX:AC](#)) stock or **Suncor** ([TSX:SU](#))([NYSE:SU](#)) stock is a good buy today.

Is Air Canada stock cheap or overpriced right now?

Air Canada trades near \$27 per share at the time of writing. Investors who'd bought the stock around \$15 near the end of October have certainly done well.

Airline bulls point to the eventual reopening of international travel as the reason for owning the stock at this level. It's true that holiday travelers who have received their COVID-19 vaccine could rush to take a long-awaited vacation.

If planes fill up quickly, Air Canada might be able to raise prices and boost margins earlier than expected.

Bears think the stock is overvalued, even if restrictions get lifted in a reasonable timeframe. In the [Q4 2020 report](#), Air Canada anticipated net cash burn of \$1.35-\$1.53 billion for Q1 2021. Based on the current situation of the pandemic, the Q2 results probably won't be much better.

Porter Airlines just announced another delay to the restart of its flights, bumping the date to June 21, citing hopes that Canada and the U.S. might ease restrictions at that time. Some analysts think the airline sector is still at risk of missing the valuable summer travel season.

Why?

A third wave of COVID-19 now has most of Canada in its grips with variants of concern spreading faster than vaccinations can control the virus. This means it could be several months before the government considers lifting travel restrictions. Quarantine rules for interprovincial travel could also remain in place, putting a damper on travel demand.

Investors could see a pop in Air Canada's share price on an announcement of a bailout deal from the government, but I would be cautious buying the stock at the current price.

[Warren Buffett](#) dumped all of his airline stocks last year.

Is Suncor stock cheap today?

Suncor's fortunes are somewhat tied to the reopening of international air travel. The company has four large refineries that make jet fuel as well as diesel fuel and gasoline. Fuel accounts for 15-20% of an airline's expenses, so the cancellation of tens of thousands of flights has a large impact on demand for the refined products.

Suncor's production business, which is the largest part of the company, should report good Q1 2021 results, supported by the strong rise in the price of oil. This is the main reason the stock also rallied from \$15 in the fall to as high as \$29 in March. Suncor currently trades near \$26 per share.

The board slashed the dividend by 55% last year to preserve cash. The remaining payout provides a yield of 3.2% right now. The move upset dividend investors who thought the distribution would be safe. As soon as commuters get back on the road and airlines take to the skies again, Suncor's integrated business structure should find renewed favour with investors.

Analysts see oil topping US\$75 per barrel by the end of the year, and oil bulls are calling for a possible spike to US\$100 on an anticipated demand surge, as the global economy goes into stimulus-driven overdrive. In the event they turn out to be correct, Suncor looks like a [cheap stock](#) right now.

Warren Buffett's firm bought shares of Suncor in 2020.

The bottom line

The end of the pandemic will bring better days for both Air Canada and Suncor. However, based on current share prices and the medium-term outlook for their respective businesses, Air Canada appears expensive today while Suncor might still be undervalued.

If you want to make a recovery bet, I would go with Suncor as the first choice.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:AC (Air Canada)
3. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date

2025/08/26

Date Created

2021/04/13

Author

aswalker

default watermark

default watermark