Should You Buy Air Canada or Enbridge Stock Today?

Description

Air Canada (TSX:AC) and **Enbridge** (TSX:ENB)(NYSE:ENB) are two of the most popular **TSX** stocks with Canadian investors. Both names have been beaten-down at the hands of the coronavirus crisis over the past year. But which, if any, is the superior bet as we march closer to the end of the pandemic?

Let's have a closer look at each contrarian play to see which, if any, is the better buy at today's market crossroads.

Air Canada

Air Canada recently got another round of financial support from the government of Canada. As a part of the deal, the federal government will take a $500 million stake in AC stock at around $23. With the airline continuing to bleed cash amid this third wave of cases, the airline faces a brutal spring. And if the vaccine rollout doesn't accelerate, Air Canada could run the risk of missing out on peak summer travel season.

While I do think investors should look to score a better cost basis than Ottawa in shares of Air Canada (perhaps in the $18-20 range), I wouldn't encourage investors to back up the truck at any moment. The name is going to continue being volatile for the duration of this pandemic. And the big post-pandemic pay-off that investors are expecting will likely be far more modest in nature. That means Air Canada stock ought to be viewed as less of a potential multi-bagger and more of a slow and steady long-term recovery play.

While Air Canada is bleeding ample amounts of cash, Ottawa will be there to pick up the airline should it fall again, with another round of fresh financial relief. I've said it before, and I'll say it again: Air Canada is too vital a business for the nation to let fail. As such, even if the pandemic drags on for another year or more, I think the odds of Air Canada falling to $0 is zero.

The Street high estimate on Air Canada stock is $41 and change, representing a whopping 66% worth of upside from current levels. If you've got the stomach and the pain tolerance, only then would I initiate a position today.

Enbridge

Enbridge is a former dividend darling that's starting to wake up, thanks in part to the recent strength in oil prices. WTI and WCS are making a huge comeback, and with thoughts of US$100 West Texas Intermediate and a continued favouring of the value trade, I think Enbridge is one of the few midstream high-yield dividend stocks out there that's too cheap to ignore.

The 7.1%-yielding dividend is stretched, but the light at the end of the tunnel is bright. Moreover, the incredibly shareholder-friendly management team seems as confident as ever. Otherwise, it wouldn't have hiked its dividend by a modest amount amid coronavirus headwinds.

I view the pressure facing Enbridge and the fossil fuel sector as temporary. On the other side of this pandemic, we could witness an abrupt uptick in energy demand. As the value trade heats up again, Enbridge is a name I'd put atop my shopping list.

With clean energy, EVs, and ambitious carbon reduction goals, fossil fuel stocks across the entire stream are unsexy. But there's no denying the cash flows and dividend growth potential of Enbridge and its resilient peers. I think there's some pretty deep value to be had, and the dividend should be more than enough incentive to hang in there for better times.

AC or ENB stock: Better buy?

I think Enbridge stock is the better buy at these levels. The dividend is rich, and it's likely to grow at an above-average rate moving forward. Air Canada seems too reliant on government support, and its next round of relief could come with strings attached.

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