



## Top Recovery Stock: Should You Buy Air Canada or Enbridge Stock Now?

### Description

Canadian investors are searching for top recovery stocks to add to their TFSA and RRSP portfolios today. As travel restrictions lift and office workers head back to their desks, airlines and the energy infrastructure stocks should see rising demand for their services.

### Is Air Canada stock a good buy today?

**Air Canada** ([TSX:AC](#)) traded for more than \$50 per share before the pandemic. At that point, the company had just finished a [strong 2019](#) with record operating revenue of \$19 billion and operating income of \$1.6 billion. Business and holiday bookings remained robust and fuel prices were still reasonable.

Today, Air Canada is struggling to survive. The company said net cash burn for Q1 2021 would be as high as \$1.5 billion. Ongoing international travel restrictions mean the Q2 numbers will likely be just as bad. In fact, Canada just banned all flights from India, and interprovincial travel restrictions are tightening amid a third COVID-19 wave.

The dire outlook likely forced Air Canada to agree to the government's terms for financial assistance.

Air Canada's aid deal with the government provides access to nearly \$5.9 billion in cash and loans. Taxpayers are taking a \$500 million stake in the company for about \$23.18 per share, and the government has warrants for more than 14.5 million additional shares at approximately \$27.27 per share.

If the full warrants are exercised, the government would become a major shareholder of Air Canada. Government voting rights are capped at 19.99%.

As part of the agreement, Air Canada must restart halted flights to most regional domestic towns and cities. The airline will also refund tickets for cancelled flights due to the pandemic. In addition, Air Canada has to complete the original purchase of A220 (formerly CSeries) planes. The company cancelled 12 planes from the 33-plane order last November. A220s are made in Canada.

Restrictions on [dividend](#) payments and share buybacks are also part of the agreement.

Overall, the financial assistance ensures Air Canada has the funds to get through the crisis. The terms of the agreement and the uncertainty around the future of demand from lucrative business travellers put the road to profitability in question.

Air Canada will survive, but the stock looks expensive at \$25 per share.

## Enbridge stock appears undervalued

**Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) trades near \$46 per share compared to \$56 in early 2020. The stock took a hit last year, as fuel demand plunged. Airlines cancelled flights, and work-from-home orders forced millions of commuters to park their cars in the garage.

Enbridge doesn't produce oil, but it moves the commodity from the energy companies to refineries that use it to make gasoline, jet fuel, and diesel fuel. Air travel will take some time to recover, but motorists are already hitting the roads again in large numbers, especially in the United States.

The second half of 2021 and 2022 should see air travel rebound. In addition, companies will require staff to start returning to the office for at least a few days per week. This means fuel demand should rebound and restore throughput to previous levels on Enbridge's oil pipelines.

Enbridge's natural gas business had a good 2020. This helped the company get through the rough patch endured by the oil pipelines. The renewable energy group includes wind, solar, and geothermal facilities. Investors could see this division grow in the next few years.

Enbridge raised the dividend for 2021, and the anticipated growth in distributable cash flow should support ongoing payout hikes. The stock appears [cheap](#) at the current price and offers a 7.2% yield.

## Is Air Canada or Enbridge a better recovery bet?

At today's stock price, Enbridge looks like the better investment. You get paid a great dividend, and the stock should drift higher as the energy sector recovers.

Air Canada could certainly rally when travel restrictions end, but the company has a long battle ahead to return to profitability. The strings attached to the government aid could delay the recovery process.

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1. Investing

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1. Editor's Choice

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