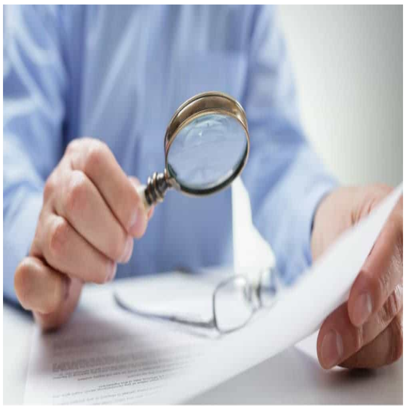

Better Buy: Air Canada or Suncor Stock?

Description

Air Canada (TSX:AC) and **Suncor Energy** (TSX:SU)(NYSE:SU) stock have endured a turbulent past year. Heading into year-end, both names look considerably undervalued versus the broader markets.

With the likelihood of yet another growth-to-value rotation, the case for scooping up either of the two Canadian value stocks seems like a solid idea. With rates on the 10-year U.S. Treasury note rising modestly on Tuesday, sending high-growth tech stocks into a bit of a tailspin, it certainly seems as though the rotations and rolling corrections we've had to endure aren't over with quite yet.

Still, as COVID cases surge in Europe, one must not discount resurgence risks and their impact on their respective reopenings.

Air Canada

Air Canada is arguably one of the most aggressive reopening plays. With the risk of a potential fifth wave, a shift into endemic remains a massive question mark. Still, Air Canada can still fare well between waves, given enhanced safety protocols, vaccine passports, and rapid testing. However, how economical Air Canada's business will be with the threat of intermittent lockdowns remains to be seen. In any case, Air Canada is one of those companies that's just too big (or too vital to the national economy) to fail. As such, the company should be able to land additional liquidity, either through more loans or an investment, with little resistance. The coronavirus crisis is an exogenous shock that was outside of the company's control, after all.

Indeed, Air Canada is one of the airlines that was the best version of itself before 2020. In prior pieces, I'd noted that had the next recession been caused by anything other than a public health crisis, the firm and its stock would have likely been fine.

For now, AC stock is likely to roller coaster between $20 and $30 depending on COVID developments. At $23, the stock is closing in on the Canadian government's cost basis. And investors would be wiseto scale into a full position over time, as the uncertainties still couldn't be greater as the pandemic approaches year three.

Suncor Energy

Suncor Energy stock has been picking up meaningful traction through 2021. Still, Suncor stock remains down a country mile (over 26%) from its 2020 pre-pandemic high. With WTI (West Texas Intermediate) prices pulling back below the US$80 mark, SU stock held its own rather well. Indeed, a blow-off top in oil prices was already baked into the stock. Moving forward, oil is likely to fluctuate in the US$60-75 normalized range. Such a level is high enough for Suncor to be highly profitable. The further oil remains comfortably above its breakeven oil price range, the more upward pressure, I believe, Suncor stock will face.

At 1.3 times book value and 1.4 times sales, Suncor stock still looks like an incredible bargain in the energy space. Further, the sustainable dividend could rise at an above-average rate over the next three years, assuming oil doesn't plunge viciously below US$40 — a doubtful but still possible outcome.

Which Canadian stock is the better buy?

Between Suncor and Air Canada stock, I think Suncor is the better bet. Robust operating cash flows and much-improved macro conditions make the stock worthy of a higher multiple.

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