Forget Air Canada: This Recovery Stock Pays a 6.5% Dividend

Description

Ever since the pandemic began and Canadian stocks started to sell off, **Air Canada** (TSX:AC) is an investment that's been quite intriguing to investors due to its low share price.

However, as I've recommended many times through the pandemic, despite Air Canada trading more than 50% off its pre-pandemic highs, there are far more recovery stocks to buy that will see a recovery in their operations long before Air Canada does.

As long as its operations are being heavily impacted and the stock is losing a significant amount of money, it will be difficult for the share price to rebound.

Furthermore, while its share price is more than 50% below where it was at the start of the pandemic, Air Canada's enterprise value, a more accurate measure of the company's value, is actually more than where it was before the pandemic, so it doesn't actually offer as much potential as you would think.

Therefore, rather than buying Air Canada and hoping for a recovery, or continuing to hold the stock if you already own it, here's a top recovery stock that will pay you a dividend that currently yields roughly 6.5% while you wait.

Forget airlines: Boston Pizza offers more potential

While Air Canada might look like a better opportunity than a stock like **Boston Pizza Royalties** (TSX:BPF.UN), the latter actually offers a much better investment in the current environment.

Up until recently, Boston Pizza, the leading casual dining chain in Canada, was still seeing a major impact on its operations. However, through the summer, as many Canadians got vaccinated and capacity restrictions started to be lifted across the country, the fund saw a significant recovery.

However, although it had a strong performance through the summer, Boston Pizza still has a long way to go to recover fully, which is why it still offers some incredible potential today.

Air Canada's stock chart can be misleading

When looking at a stock's chart, it can be useful information for investors. However, it's important to understand that the stock price only paints part of the picture. Investors looking at Air Canada stock thinking they can buy it for half the price it was before the pandemic are missing all the debt it's taken on through the pandemic.

At the end of 2019, right before the pandemic started, Air Canada had a market cap of $11.8 billion and net debt of $3.4 billion for a total enterprise value of almost $15.2 billion.

Today, the stock has a market cap of just $8.3 billion (down $3.5 billion), but its net debt grew to almost $8 billion (an increase of $4.6 billion) for a total enterprise value of $16.3 billion. That means Air Canada's enterprise value has actually increased by 7% through the pandemic.

To its credit, Air Canada has finally been recovering its sales. However, revenue is one thing; profitability is quite another. Boston Pizza is already profitable at this level of sales, which is why it increased its dividend by 30% lately while still keeping a conservative payout ratio.

While Air Canada might look like an excellent opportunity and a cheaper option than Boston Pizza, it's not. Furthermore, when looking for a recovery stock to buy, it's crucial to weigh the risks that come with it, especially if the pandemic potentially takes another turn for the worse.

And in that case, Boston Pizza is nowhere near as risky as an investment in Air Canada stock. It has a clear path to recovery, but you can also collect the significant dividend while you wait for its units to appreciate.

Most importantly, though, any risks Boston Pizza faces regarding the pandemic will impact Air Canada by the same or worse. So if you were considering an investment in Air Canada stock, in my opinion, Boston Pizza looks like a far better opportunity today.

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