2 Canadian Growth Stocks to Recoup Losses from Air Canada (TSX:AC)

Description

Air Canada (TSX:AC) stock is testing investors' patience since the government bailout in April 2021. The $5.9 billion bailout came as a relief at the time of panic. But now that things are stabilizing, the bailout terms act like a bee sting. The bailout condition prohibits AC from giving dividends or stock buybacks during the loan term. This leaves investors with only one way of earning returns, and that is capital appreciation. Sadly, AC share hasn't done very well in that area either.

Should you sell Air Canada stock at a loss?

Air Canada's shares fell 7.2% last year and are down 14% from its November 2021 high, when it reported robust earnings. Rising oil prices have got me bearish on the airline stock. I don't see any positive net cash flows in the fourth quarter. I was bullish on the stock under the scenario where pent-up demand helps AC survive without the bailout money. But rising oil prices and the return of certain travel restrictions during the Omicron wave skews the needle toward the red for airlines.

I expect the stock to go to $28-$30 at the most in 2022, provided things improve. If you purchased the stock at a price above $26, there is more downside than upside. The stock could fall to $20 (23% downside) or grow to $30 (15% upside). The risk-reward ratio is not exciting enough to hold the stock if your cost is $26/share. There is a significant opportunity cost associated with holding AC. Instead, you can cash out, take a loss, and invest in tech stocks that are currently in a downturn.

How to recoup losses from Air Canada

While AC has an uncertain outlook, some tech stocks are trading at a cheap price because of a tech meltdown.

- **The iShares S&P/TSX Capped Information Technology Index ETF** (TSX:XIT)
- **Dye & Durham** (TSX:DND)

Buying these stocks at a dip could help you recoup a 15% loss from Air Canada and grow your money as the economy recovers.

The technology ETF

The technology sector worldwide saw a meltdown, with the **Nasdaq Composite Index** down 8.8% and the XIT ETF down almost 13% since December 30. Many factors are causing this dip. The US Federal Reserve could hike interest rates aggressively this year, putting pressure on stocks with inflated valuations. Hedge funds are cashing out on high valuation stocks, according to a Bloomberg article. Moreover, a few Canadian tech stocks have been hit by negative reports from short seller Spruce Point Capital.

The current bearishness was expected by value investors like George Soros, who warned of a tech bubble burst in 2020. Is this a tech bubble burst like the 2001 dot.com bubble when most tech stocks crashed from a sky-high valuation and have not returned to those levels even after 21 years? It is difficult to say. But even in a tech bubble, companies with scalable business models could do well. The XIT ETF holds 23 tech stocks trading on the TSX, with over 60% of the holdings spread across **Shopify**, **Constellation Software**, and **CGI**.

All three stocks are market leaders in their verticals and have the potential to come out of the tech sell-off. The ETF can help you reduce your downside risk through diversification and increase upside with large holdings in strong companies.

Dye & Durham stock

Apart from the ETF, I think Dye & Durham is an individual tech stock worth buying in the dip. The company helps professionals and businesses improve their workflow efficiency. It also provides information services and adopts a growth-through-acquisition strategy.

Dye & Durham enjoys predictable cash flows due to its long-term service contracts and the stickiness of its services. When a product is sticky, you are reluctant to change the provider, and you don’t mind paying a premium price. The company’s stock started trading on the TSX at the peak of the tech bubble in July 2020. It enjoyed the tech enthusiasm that helped it grow over 240% in less than six months.

Since then, the stock dropped 23% as the inflated valuation eased. The company has strong fundamentals and cash flows to withstand short-term crises. Once the tech bears return to hibernation, the share could recover to the pandemic level.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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2. TSX:DND (Dye & Durham Limited)
3. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)

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