Want to Buy Air Canada Stock? Buy This Company With It!

Description

It's been arduous travels for shares of **Air Canada** (TSX:AC), which struggle to gain traction, thanks in part to the fading macroeconomic picture. Indeed, the impact of the COVID crisis still weighs heavily on Air Canada despite its attempts to weather the storm. With air travel continuing to heal from the worst days of the pandemic, there are reasons to be optimistic, even ahead of a recession year.

Undoubtedly, airlines have high fixed costs, making them tough to buy in the face of demand shocks. The pandemic was a shocker that sent the broader basket of airline stocks into the gutter. With a central bank-induced global recession coming up next, it seems like Air Canada is bracing itself for round two in the ring with a Mr. Market who's shown it's not willing to pull any punches.

Down around 16% year-to-date, Air Canada has continued to be a turbulent ride for dip-buyers and long-term shareholders. Despite the bumpy moves, I think there is little reason for investors to bail out right now, even if it seems like investing in airlines is a terrible idea.

Air Canada stock catalysts seem limited with a recession ahead

For Air Canada, a recession is likely the second worst thing (next to a global pandemic) that could happen. When consumers tighten their purse strings, travel and leisure tend to sink quickly. Though the masks (and restrictions) are off (for now), there's no guarantee that it'll be smooth flying for Air Canada as every interest rate pushes us closer to a downturn. Further, a resurgence of COVID poses a serious risk for air travel as we know it.

Air Canada stock has had a recession baked in for several months now. At $18 and change, the stock is hovering around its 2020 lows. In essence, AC stock has sent investors on a round trip right back to the mid-teens. It's hard to tell how much damage a recession will do. Regardless, the $6.7 billion Canadian airline is already used to moving against the wind.

Analysts at Citi have a "Hold" rating on the stock, partially due to depressed passenger volumes and less upside versus some of Air Canada's U.S.-based peers. Indeed, Air Canada is a more internationally focused airline, and this focus could lead to a painfully slow multi-year recovery, rather than an abrupt one due to varied views on how to react to the ongoing pandemic in its latter stages.

Air Canada stock: What to pair with the risk-on play?

Indeed, Air Canada stock still seems like a risky play for all but the most patient investors. That's why I'd pair the name with a risk-off play like **Fortis** (TSX:FTS).

Fortis is a great defensive dividend stock that recently suffered a bear market move of its own. After a 25% fall from peak to trough, the stable utility isn't looking so "safe" anymore through the eyes of investors seeking bond proxies and shelter from market-wide volatility. Despite the move in utilities, I remain bullish on Fortis stock. If anything, the dip has only made a safe play that much safer! Further, the 4.3% dividend yield is close to the highest it's been in a while!

Bottom line: AC and FTS stock are a great combo

Air Canada stock remains a high-risk play despite flirting with 2020 levels. For those bullish on the future of air travel, AC stock may be a great pick-up alongside a risk-off dividend payer like Fortis. That way, investors can improve their portfolio's overall risk/reward as we inch into another tough year.

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