This Small-Cap Stock Is Like Air Canada (TSX:AC) Without the Risk!

Description

In the current stock market rebound, many investors are showing interest in **Air Canada** (TSX:AC) stock. Trading at a rock-bottom price-to-earnings multiple, it's cheaper than it has been in years. By traditional metrics, it's a great value play.

However, AC faces a number of risk factors that could get investors in trouble. It's showing tell-tale signs of cash flow problems and is facing the possibility of having its flights cancelled for a prolonged period. If the company remains non-operational for long, it could be looking at another bankruptcy. In that case, it could be bailed out, but current shareholders could see their equity diluted.

Nevertheless, the broad thesis for investing in airlines right now is sound. With "ultra-cheap" valuations, many of them are absolute bargains. If an investor could pick the "safest" airline stocks — those not at risk of insolvency — they'd stand to make a lot of money. As far as passenger airlines go, that would be a hard call to make. All of them are capital-intensive businesses that can't go through months of being shut down without serious financial problems. However, there are some cargo airlines that could actually be good buys. In this article, I'll explore one of the best.

CargoJet

CargoJet (TSX:CJT) is a small Canadian cargo airline. It's based in Ontario and ships goods around Canada and, to a lesser extent, internationally. Its specialty is overnight shipping — mainly small deliveries for individual buyers. This focus on small packages means that the company ships a lot of e-commerce orders. As a result, it's actually doing better in the COVID-19 era than it was before. E-commerce sales are exploding right now thanks to business closures. CargoJet benefits from this trend, as it does a lot of shipping for companies like **Amazon.**

Why it's safer than Air Canada

CargoJet is a safer bet than Air Canada, because it's able to operate normally in the current environment. Currently, Air Canada has 90% of its flights shut down due to travel restrictions. It's not clear that they will come back immediately when lockdowns are lifted. A big part of why many routes were cancelled early on was because passengers *voluntarily* stopped flying. If people are still concerned about COVID-19 after the economy formally re-opens, then air travel will remain low. In this situation, passenger airlines like AC would lose money.

It's just the opposite with CargoJet. As a cargo airline that ships e-commerce products, it's thriving right now rather than suffering. The biggest risk factor facing the company is a drop-off in business after COVID-19 lockdowns end. That would lead to a revenue decline, but it wouldn't put the company in financial dire straits. So, CJT just doesn't have the big risk factors that AC has right now — bankruptcy, dilutive bailouts, etc.

On the flip side, CJT doesn't have the upside that AC has in a best-case scenario. AC is practically being given away for free now, so it could bounce back dramatically if it can survive COVID with its finances intact. However, it's not certain that that will happen, so the stock remains very risky. Overall, CJT is the "safer" bet.

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