Better Buy: Air Canada (TSX:AC) vs. Cargojet (TSX:CJT)

Description

Air Canada (TSX:AC) and **Cargojet** (TSX:CJT) are two companies that look similar on the surface. Both are Canadian airlines that operate domestic and international routes. Both saw their stock prices fall in the COVID-19 market crash. Both were delivering truckloads of value to investors before the crisis hit. You'd think the two companies are very similar, but looks can be deceiving.

While AC and CJT are both airline stocks, the similarities end there. One primarily flies people; the other exclusively flies cargo. This is a night-and-day difference. In fact, it arguably means the two companies are not even in the same business. However, if you're looking to get some airline exposure in your portfolio, it's worth comparing them. The following are some points to consider if you're trying to find a good airline stock to buy.

The case for Air Canada

The biggest thing Air Canada has going for it is the potential for a huge rally if its business recovers.

Before AC's massive $1.05 billion Q1 lost was posted, the stock was trading at just 3.4 times earnings. That one quarterly loss was enough to drag down the total for 12 months, so the trailing P/E ratio is now much higher. However, if earnings get back to normal, the stock will prove to have been undervalued at current prices. Should that scenario play out, then AC stock will rise dramatically.

The big problem is that nobody knows if that will happen. Currently, Air Canada is projecting that it will *still* be operating 75% fewer flights than normal in Q3. That's a fair ways into the future. And, in fact, the lower flight volume could continue longer than that. After selling all of his airline stocks, Warren Buffett said he "wasn't sure" that air travel would be back to normal in two or three years. The potential for prolonged weakness in air travel makes AC an extremely risky stock.

The case for Cargojet

The main thing that Cargojet has going for it is the fact that it's a thriving, ultra-profitable company, even in the COVID-19 era. The company's Q1 earnings report showed increases in revenue, adjusted EPS and gross margin. These results were attributable to a surge in e-commerce orders. As a cargo airline that ships small overnight orders, Cargojet makes money when people order from sites like **Amazon**. Such orders are actually increasing now, thanks to the closure of brick-and-mortar businesses.

It's not clear that Cargojet's recent revenue spike will continue once businesses are re-opened. However, it was generally a profitable business before COVID-19 restrictions began. That the company is even operating normally now gives it a favourable comparison to Air Canada.

The downside with CJT is that its stock is extremely expensive. With $0.85 in diluted EPS in the last 12 month period, it trades at 165 times earnings. In normal conditions, this would give Air Canada an edge over CJT. However, we aren't in normal conditions. If Air Canada's earnings remain negative long term, then there's no telling how low that stock could go. With the information we have today, CJT is clearly a better buy than AC.

CATEGORY

1. Coronavirus
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. TSX:AC (Air Canada)
3. TSX:CJT (Cargojet Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing

Tags

1. Editor's Choice

Date
2025/07/19
Date Created

2020/05/12
Author
andrewbutton