Chuck Air Canada (TSX:AC) and Consider These 2 TSX Airline Stocks

Description

Uncertainties continued to drive airline stocks recently with volatility going through the roof. Although many Canadian airlines are gradually restarting operations, demand in short- to intermediate-term will likely be very low.

So, are there any worthy opportunities for investors in the Canadian aviation space? Or should investors avoid the sector altogether?

Let's take a look.

Air Canada

Air Canada (TSX:AC) stock lost more than 4% in yet another super-volatile last week. The country's biggest airline is grappled with multiple challenges that might not soothe anytime soon.

Air Canada seems well placed from the liquidity standpoint, which will likely help it sustain relatively longer during the pandemic. However, its high-speed cash burn on unavoidable operating expenses could make the situation direr if the demand remains lower for longer than expected.

Air Canada management expects three years' time to normalize air travel demand. Importantly, such a long period suggests lower revenues, more and more losses, and in turn, concerns over its survival.

Many believe that Air Canada's lower valuation makes it an attractive buy at the moment.

However, I think surrounding uncertainties would significantly weigh on the stock in the near future. How air travel demand fares in the second half of 2020 would bring more clarity and throw some useful light on Air Canada's future.

Chorus Aviation

Chorus Aviation (TSX:CHR.B) looks comparatively better from the valuation perspective. It will likely exhibit a relatively faster recovery due to its operations spread within Canadian borders and aircraft leasing business.

However, Air Canada is one of its key customers, and lower demand could delay Chorus' recovery. Also, Chorus has a huge debt pile, which may become a hindrance in case the pandemic lasts longer.

Chorus stock has fallen more than 50% since its pre-pandemic levels. The stock is trading six times its 2020 earnings estimates and offers a significant discount compared to its average historical valuation.

Cargojet

Apart from these two, air cargo operator **Cargojet** (TSX:CJT) offers a much sunnier outlook. The pandemic and lockdowns had a little impact on its operations recently.

Interestingly, while many airline companies failed to keep up with their topline growth, Cargojet managed a superior revenue growth last quarter.

Air Canada versus Cargojet

Cargojet's wide network enables next-day delivery to more than 90% of the Canadian population. Also, Cargojet's long-term contracts with customers facilitate revenue stability and reliability.

It appears poised for a strong growth going forward. Continued e-commerce growth will likely uplift Cargojet as well with its unique selling proposition of next day delivery.

Notably, CJT stock looks substantially overpriced at the moment. The stock was trading close to $20 in early 2016, while it crossed $150 levels last week.

Instead of Air Canada, Cargojet stock is a solid investment bet for long term investors. Its valuation remains a concern. Conservative investors can consider buying in multiple tranches or wait for the next dip.

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3. TSX:CJT (Cargojet Inc.)

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vinitkularni20