Air Canada (TSX:AC) Stock: Is Now the Time to Buy?

Description

Air Canada (TSX:AC) stock has experienced a perilous roller coaster over the past few months. The fact is, the entire airline and travel industry has been thrown into an unparalleled crisis due to COVID-19.

Obvious health concerns around travelling, strict quarantine restrictions, and closed borders are collective reasons why passenger volumes have dropped to a 10th of what they were.

With generally high debt levels and heavy operational costs, many airlines are just struggling to stay alive.

The capital markets have rescued Air Canada stock

Fortunately for Air Canada, the capital markets have been very supportive. At the start of June, it completed an equity and debt offering of $1.6 billion. This week, it raised an additional $1.23 billion in private debt. So far, it has raised a total of $5.5 billion. It now sits with approximately $9 billion of liquidity to weather this crisis.

I believe this has likely saved the stock from going to zero. While Air Canada continues to burn a massive amount of cash, it has made the appropriate moves (work force cuts, cost-reduction measures, and cancellation of plane orders) to make sure it survives this crisis.

Air Canada still faces an uphill battle

However, all this fund-raising has significantly diluted current shareholder equity. In addition, Air Canada will now have to service and eventually repay its new massive burden of bonds, notes, and debentures.

Beyond any operational concerns, of which there are many, this could seriously inhibit Air Canada's ability to accrete earnings and earnings growth for many years to come.

Considering this, I just don't believe now is a good time to buy Air Canada stock. Yes, it is cheap compared to a year ago. However, by management's own admission, it could take years to achieve 2019 operational volumes or earnings.

As my Motley Fool colleague Ryan Vanzo recently noted, "Investors are stuck between a rock and a hard place. While the company will survive, its operations will be significantly smaller for years to come."

I won't buy Air Canada, but I do like this airline stock

While I wouldn't recommend buying stock in Air Canada, there is one airline stock I am bullish on. This stock is **Cargojet** (TSX:CJT). It is trading at a pricey $161, just off all-time highs. Yet there are reasons why this stock is thriving and Air Canada is not.

Cargojet is Canada's largest provider of time-sensitive domestic air cargo. It operates a growing network of freight flights across North America and increasingly across the globe.

Air cargo demand has rapidly risen

Since the pandemic crisis, delivery demand for healthcare and e-commerce products significantly increased. In the first quarter alone, Cargojet saw revenues and adjusted EBITDA increase year over year by 11.4% and 24%, respectively. The quarter ended March 31, so it does not even encapsulate the true demand acceleration occurring in the crisis peak.

Cargojet has benefitted from passenger airline's volume reductions by taking on their share of cargo operations. As a result, cargo volumes have rapidly increase domestically and internationally.

Last year, **Amazon** became a strategic 9.9% owner in Cargojet. This partnership could possibly end in a take-out or just help ensure continued expansion from the growing e-commerce wave.

I want tailwinds, not headwinds

The point is, where Air Canada is suffering, Cargojet is thriving. Air Canada's headwinds have become tailwinds for Cargojet stock. While Cargojet stock is pricey, its business is quickly and sustainably accelerating. Frankly, I would much rather own a stock that is thriving today and tomorrow than one that is just merely surviving.

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