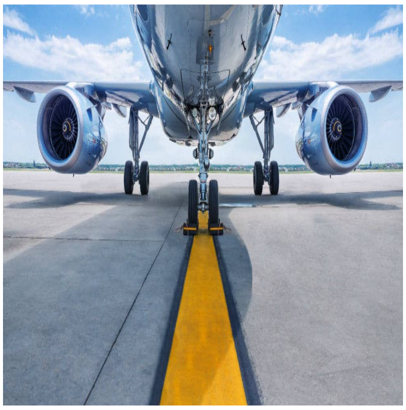

Forget Air Canada (TSX:AC): Put Your $2,000 in This Airline Stock Instead

Description

Air Canada (TSX:AC) is the prominent name that comes to our minds when we talk about the Canadian airline stocks. However, the biggest airline company of Canada (by fleet size and passengers' carrier) has now lost significant market value amid the pandemic-led crisis.

Air Canada stock has declined over 65% this year, as its domestic and international flights came to a halt following the government's safety measures. The company has suffered huge losses and saw its operating revenues decline in the most recent quarter. Now that the company will resume operations, its flights are likely to operate at reduced capacity, which could add more pain. Air Canada's problems are here to stay, at least for the foreseeable future, as high debt and lower capacity could remain a drag.

The company is working on cost-savings measures and has also raised funds to stay afloat in these testing times. However, I do not expect international air travel demand to rebound soon. With too much uncertainty and rising COVID-19 cases, the outlook of Air Canada looks grim.

Amid such a scenario, if you are planning to put your spare $2,000 cash in Air Canada stock because it is cheap, think again. Investing in Air Canada stock could prove to be a lousy investment. Instead, investors should put their $2,000 in another airline company that has been performing remarkably well.

Cargojet

Cargojet (TSX:CJT) is a much smaller airline company than Air Canada. However, investors should note that this TSX airline stock has delivered incredible growth this year and could continue to perform well in the coming quarters. After bottoming out in mid-March, shares of Cargojet have shown a significant recovery. The stock has returned over 133% since its March lows and has grown about 55% year to date, beating the benchmark index considerably.

Cargojet earns revenues from its air cargo services within North America, unlike Air Canada, which generates most of its revenues from passenger flights. Cargojet has a strong presence across 15 major cities of North America along with a few international destinations. With a fleet size of 26 aircraft, the company provides time-sensitive premium overnight air cargo and on-time delivery services. Cargojet's business is part of essential services, implying it will continue to operate at normal levels, despite flying restrictions.

In the most recent quarter, Cargojet delivered a robust revenue growth of 11.4%, much better than its Canadian airline peers. Investors should note that Air Canada's operating revenues declined by 16.4% in the recent quarter. Its focus on its ACMI and All-in Charters businesses and network optimization resulted in a significant expansion in its adjusted EBITDAR margin in the past four consecutive quarters.

Cargojet's focus on strengthening its relationship with its existing and new customers for both its domestic and international routes should continue to support its revenues and margins in the future. Cargojet's strong top-line growth and operating efficiencies should help it to continue to deliver impressive earnings growth, which should support its free cash flows.

Bottom line

While the airlines were one of the worst-hit industries amid the current crisis, Cargojet has managed to accelerate its growth rate. Given its strong top-line growth, large customer base, on-time delivery, operational efficiencies, and ability to consistently generate substantial cash flows, Cargojet emerges as a solid bet for long-term investors.

CATEGORY

1. Coronavirus
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