Should You Buy Air Canada (TSX:AC) or Cargojet (TSX:CJT) Stock Right Now?

Description

The COVID-19 pandemic lockdown has slaughtered airline stocks in recent months. Contrarian investors might wonder if it is a good time to bet on the rebound of airline companies and take a speculative position in this sector. Let's see if companies such as **Air Canada** (TSX:AC) and **Cargojet** (TSX:CJT) are good buys right now.

Air Canada stock is trading 68% below its 52-week high

Shares of Canadian aviation giant **Air Canada** (TSX:AC) are trading at $16.92, which is 68% below its record high of $52.71. Air Canada was one of the top TSX stocks in the past decade when it rose approximately 3,500% before the dreaded pandemic struck and brought the world to its knees.

Several countries are still grappling with rising COVID-19 cases. This means the global travel sector is not expected to restart any time soon. In fact, several airline industry experts warned it may take up to two years for air traffic to rebound to pre-COVID-19 levels.

In the first quarter of 2020, Air Canada's loss stood at a massive $1.05 billion. Analysts expect revenue to fall 91% to $442 million in the second quarter and by 77.5% to $1.25 billion in the third quarter. You can expect the company's net loss to move higher in Q2 and Q3, as it is burning through $20 million per day.

While Air Canada reported record sales of $19.13 billion in 2019, these figures are expected to decline by 59% in 2020 to $7.84 billion. During its Q1 earnings call, Air Canada management emphasized it would take three years to get back to 2019 revenue levels.

Last month, Air Canada announced it will cut 30 domestic routes due to low customer demand. While lockdown restrictions are lifted, people are unwilling to risk travel, indicating airline companies are expected to experience a prolonged weakness in sales.

There are a lot of uncertainties surrounding Air Canada stock right now. Due to its huge market presence, the company is likely to receive a bailout from the Canadian government. However, equity financing will dilute shareholder wealth while debt financing will pressure the balance sheet. Investors can thus expect Air Canada stock to remain volatile in the upcoming months.

Cargojet continues to crush the broader market

While Air Canada is lying in the dumps, Cargojet stock has returned over 50% in 2020. It has gained a stellar 500% in the last five years. This Ontario-based scheduled cargo airline operates cargo services and full aircraft charters across domestic and international routes.

The airline space has been subjected to major headwinds as seen above. However, Cargojet stock continues to touch record highs due to sustained demand for air cargo. The company also benefits from its on-time performance, robust fleet management capabilities, retention of existing customers, and focus on acquiring new customers.

This aviation stock is flying high while most of this sector is grounded and struggling with mounting losses in a capital-intensive business. There has been consistent demand for international and domestic cargo even during the pandemic.

Cargojet continues to add aircraft fleet and expand its network capacity to support ongoing growth. Its continued focus on cost-saving measures and its predictable cash flows make the stock a far better bet compared to Air Canada.

CATEGORY

1. Coronavirus
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2. TSX:CJT (Cargojet Inc.)

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