Stock Alert: Time to Add Air Canada (TSX:AC) and Chorus Aviation (TSX:CHR-B) to Your Portfolio?

Description

Despite having preached about the benefits of diversification in my past articles, it is important to note that you still need to remain vigilant about which companies in which you choose to diversify.
Today, I will discuss two well-known Canadian airline companies, **Air Canada** (TSX:AC) and **Chorus Aviation** (TSX:CHR-B), and give my opinion on whether it is a good idea to add these two companies into your portfolio.

Overview

Air Canada is the largest Canadian airline by fleet size and passenger capacity. It was founded in 1937 in Ottawa, Canada and was a founding member of the Star Alliance. It provides air transport for passengers and cargo to over 200 destinations across the globe.

Chorus Aviation is a younger Canadian company that was founded in 2010. It operates primarily as an airline company like Air Canada. It has many subsidiaries including: Jazz Aviation LP, Voyageur Airways, Chorus Aviation Capital and more.

Valuation and performance

In regards to market cap, Air Canada is the bigger company with a market cap of $5.01 billion, while Chorus Aviation is only at $455.04 million.

Taking a quick glance at the price to earnings ratio, Air Canada has a tremendously high forward price to earnings ratio of 55.12, while Chorus Aviation has a forward price to earnings ratio of only 5.28. Comparing this to the current **S&P/TSX 60's** forward price to earnings ratio of 19.59, this suggests that Air Canada may be extremely overvalued, while Chorus Aviation may be undervalued.

From 2018 to 2019, Air Canada's total revenue grew from $18.07 billion to $19.12 billion, representing a 5.9% increase. On the other hand, Chorus Aviation's total revenue declined from $1.45 billion to $1.37 billion, representing a 5.83% decrease over the same time period.

Despite its revenue growth, Air Canada's stock price tanked 62.46% over the past year and Chorus Aviation's stock price dropped 66.89% over the same period. From a longer term perspective, Air Canada stock has grown 15.37% over the past five years, while Chorus Aviation stock declined 57.45% during the same time frame.

Brief look at financials

Air Canada's trailing 12-month (TTM) total revenue currently stands at $18.42 billion, while Chorus Aviation has a TTM total revenue of just $1.37 billion. At the moment, Chorus Aviation has surpassed its total revenue from 2019, while Air Canada is on track to beat their 2019 total revenue by the end of the year.

Notably, Air Canada's TTM net income took a huge hit this year. Last year, its net income was $1.48 billion, which is 18 times greater than its current TTM net income. Conversely, Chorus Aviation's TTM net income is $82.42 million, which means it is on track to match, if not beat, the previous year's net income.

Air Canada's lackluster performance this year can be attributed to the global pandemic that severely reduced airline revenue. Many airlines have had fleets grounded at the airport because no one can, or even has the desire to, travel during a time like this.

Foolish Takeaway

Warren Buffet recently sold out of his positions in airline stocks, which took the whole investing community by surprise. If Warren Buffet, the greatest investor in the world, is selling airline stocks, it may be for the better that everyone else also stay away from investing in airline companies as well.

Although maintaining a diversified portfolio is crucial, you should be wary of which companies you choose to include in a portfolio. I would stay away from airline stocks for the time being.

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