



## Comparing a \$10,000 Investment in Air Canada and Cargojet Stock a Decade Back

### Description

Canadian stocks at large have recovered almost three-fourths of their value lost during the epic COVID-19 crash. However, the country's biggest airline, **Air Canada** ([TSX:AC](#)) stock, has fallen around 70% and continues to look muted. However, air cargo operator **Cargojet** ([TSX:CJT](#)) skyrocketed this year and is up almost 90% so far.

### Air Canada stock versus Cargojet

The discrepancy in their performances is indeed notable. The one that operates a passenger airline business has been notably affected by the pandemic while the other, a relatively smaller, air cargo company, significantly benefitted from it.

Since 2011, Air Canada stock returned 1,410%. That is still robust in comparison to some laggards after the big dent of the pandemic. However, Cargojet stood way taller and returned almost double than Air Canada in the same period.

An investment of \$10,000 in Air Canada in this period would have made \$151,000 today. One would have accumulated \$290,000 in Cargojet. Investors should note that most of the performance divergence has occurred only this year due to the pandemic. In early 2020, both these TSX stocks were sitting on almost similar gains.

### What's next?

However, what lies ahead for these airlines is more interesting. Air Canada has the scale and operational efficiency. However, e-commerce growth will likely underpin Cargojet's growth in the next few years. Its unique proposition of overnight delivery and unmatched network will likely bode well for its earnings growth going forward. Notably, both these airlines hold a leadership position in passenger airline and air cargo space.

Their second-quarter earnings throw some important light on how things could be for them ahead.

In Q2 2020, Air Canada reported a 90% decline in revenues, while Cargojet's [revenues](#) grew by 65% year over year. Air Canada is planning to suspend operations on more routes as cost-cutting measures. Air travel restrictions by the Canadian government have significantly hampered its operations, leading to a massive cash burn.

At the same time, the work-from-home economy boosted e-commerce sales for Cargojet, which were more than offset lower volumes from the business segment. The changing consumer behaviour is expected to fuel e-commerce growth for the next few years, even if the pandemic and travel restrictions wane.

Cargojet stock offers attractive growth prospects, but the stock has become notably expensive after this year's rally. Despite the valuation concerns, Cargojet could continue to shine in short to intermediate term.

## Bottom line

So, when will Air Canada return to grace? The passenger air travel will be visibly slower and further delay Air Canada's recovery. Its large market share and fleet will help it recover post-pandemic. A vaccine launch could further accelerate its recovery.

In my view, Air Canada is a solid investment for long-term investors. The above-mentioned competitive edges will help it emerge strongly from this crisis as well. The management sees its cash burn rate to decline in the second half of 2020. As more routes will be added to operations, the airline could see a gradual improvement in the top line. The country's [biggest airline will return to glory days](#) and will make up for the lost time.

## CATEGORY

1. Coronavirus
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## TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:CJT (Cargojet Inc.)

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