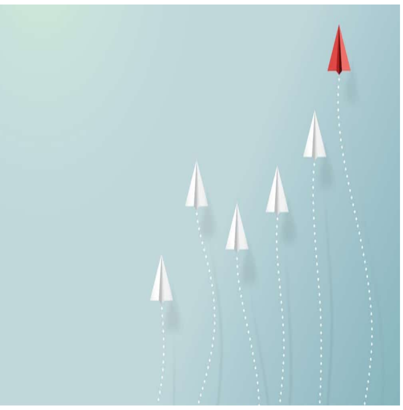

Better Buy: Air Canada (TSX:AC) or Cargojet (TSX:CJT) Stock?

Description

It might seem like a no-brainer question to ask, especially now, when **Cargojet** (TSX:CJT) is considered one of the top growth stocks currently trading on TSX, and **Air Canada** (TSX:AC) is practically grounded. But investing is not just about what a stock has done in the past; it's more about what it can do in the future.

And granted, if you have enough data, the future can be considered an extension of the past, which you can predict with a level of certainty, but if there is one thing that COVID-19 has taught the investors, it's that you can never account for all possibilities. After all, Air Canada, like Cargojet, was once one of the most coveted growth stocks on the TSX.

So, which one is a better buy for you right now? That depends a lot on your risk tolerance and whether you plan to buy the stock right now or to wait for another crash/correction.

The case for Air Canada

Air Canada is still hovering around the same $16-$17-per-share territory. It's the rut that the price has been stuck at since March. If we consider the pre-pandemic valuation of the stock, the current price seems very temptingly undervalued. But that's based on the assumption that Air Canada can and will revert to the glory days in a couple of years.

If that were to happen, then Air Canada might be a better buy right now. The stock will probably stay hovering under $20 for a few more months. It may even drop further if the next quarter is equally or more disastrous than the past one, or if refunds requests grow into a massive issue. It's a long shot that can pay off big, and even in the best-case scenario, the stock may take two to four years to triple in value (from $17 to $52).

If that's within your risk metrics, or you want to make a risky bet with a small amount of capital, Air Canada might be the better buy right now.

The case for Cargojet

When it comes to Cargojet, there is just one question: can it keep up its growth rate for a few more years? With a price-to-book ratio of 12.3 and a price to earnings of almost 42, the company is aggressively overvalued. But it will still be worth it if it can replicate its previous growth. If it can merely repeat its three-year growth (CAGR: 55%), Cargojet can turn your $10,000 into $37,000.

It's difficult to predict whether Cargojet has what it takes to keep on growing. After all, there have been stocks that have defied expert opinions in the past and kept on growing, despite being ridiculously overpriced. If you believe Cargojet *is* that stock than it would be a better buy than Air Canada.

But I would suggest waiting for another correction, because Cargojet's recent growth spurt (after the crash), maybe unnaturally high and conflated, even for such a rapidly growing company. A market correction might be due, and waiting for the stock to drop would be prudent. Better yet, just buy it during the next market crash.

Foolish takeaway

I know I haven't provided a definitive answer yet, and that's because there isn't a clear better choice between the two, especially if you are buying right now. For some investors who believe in Cargojet's business model and its positioning in the current e-commerce market, it might be the better choice. For those looking to play the long odds, Air Canada might be the better bet. A prudent approach would be to wait and see.

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