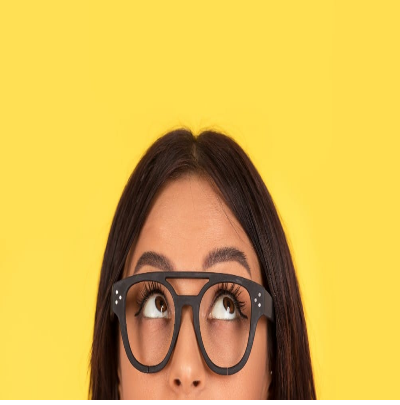

Forget Air Canada (TSX:AC): Buy this Stock When Airlines Recover

Description

Since the start of the pandemic, there is no question that some industries have been disproportionately affected. One of the worst impacted industries has been air travel, which is why companies like **Air Canada** (TSX:AC) continue to struggle.

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At the start of the pandemic, while almost every stock was crashing, Air Canada saw its value fall by 75% at its worst point. However, since then, many **TSX** stocks have recovered substantially, and some have even surpassed their pre-pandemic high. Meanwhile, Air Canada continues to trade more than 70% down from its 52-week high.

The massive discount in share price has been intriguing investors. After all, a stock that's down nearly three-quarters of its value in less than a year through no fault of its own should mean that when it recovers, investors will be rewarded, right?

An Air Canada recovery

Air Canada's stock is trading at a massive discount, creating a massive opportunity for the stock as we emerge from the pandemic, and air travel is deemed safe, both by health officials as well as public opinion.

However, the size of the recovery all depends on how long the pandemic lasts. Every day that Air Canada has planes sitting on the ground, it's losing massive sums of cash.

The longer the pandemic goes on, the higher potential that the company will have to issue more debt or dilute shareholders. That can have a big impact on the stock's upside potential when the stock does start to rally post-pandemic.

There's no doubt that savvy investors can make money investing in Air Canada. The only problem is, the longer you have to wait for its recovery, the more inefficient your investment will be, and the more potential upside you'll lose.

TSX stock to buy

Rather than hoping for a recovery in Air Canada shares, I recommend investors consider a high-quality growth stock like **CAE Inc** (TSX:CAE)(NYSE:CAE).

CAE is a modeling and simulation company. The business trains employees in the healthcare sector, the defence sector, as well as the airline industry.

Serving the airline industry has been CAE's biggest segment of the business, so naturally, as the pandemic impacted airline stocks the most, CAE has been heavily impacted.

However, despite this major impact, CAE is still a much better choice than Air Canada for several reasons.

First, CAE has a much stronger balance sheet and is in a much better capital position. This is highly important, especially with the uncertainty regarding the pandemic's duration and how long the impact on business may last.

Second, despite a large impact on business, it's still nowhere near the impact on Air Canada. During CAE's first quarter of its fiscal 2021 (ended June 30, 2020), CAE posted a loss of roughly $0.11 a share — roughly a -1.2% return on equity. That loss came after the company saw its revenue drop by 33% compared to the same quarter the year prior.

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However, when you compare that to Air Canada, it shows just how poorly Canada's flag carrier has performed. In the same quarter ending June 30, 2020, Air Canada saw its revenue down a whopping 89%. The company lost more than $6.44 last quarter, more than a third of its equity at the time.

In the first six months of 2020, Air Canada has lost over $10 a share and more than four times as much as the company had made to that point in 2019.

Bottom line

Despite the massive impact on Air Canada's business, the stock is down 70% from its 52-week high versus CAE, which is holding up much better, although it's still down a whopping 50%.

That discount in CAE is way too big and offers investors a great entry point today. It's especially attractive when you consider that CAE was one of the top growth stocks on the **TSX** before the pandemic.

So as the economy and the airline sector begin to rebound, I would expect CAE to be one of the top performers.

CATEGORY

1. Coronavirus
2. Investing

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2. TSX:AC (Air Canada)
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