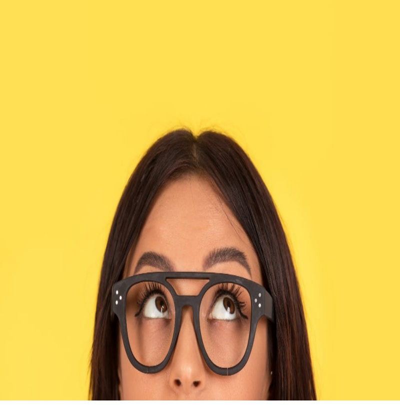

Should You Buy Air Canada or Cargojet Stock Today?

Description

Investors coming to the aviation space for the first time have some intriguing options. **Air Canada** (TSX:AC) has barely been out of the headlines. But is it the best aerospace stock to buy today?

Why buy Air Canada stock?

Need it be said that Air Canada has comeback potential? Earnings recovery could put Air Canada into high-growth stock territory. Add to this the fact that Air Canada is also a wide-moat business. Like it or not, Air Canada is one of those names — like **Manulife Financial**, **Enbridge**, and **Nutrien** — that exemplifies market leadership.

In other words, Air Canada is right where it needs to be in the eventuality of a confident and robust reopening strategy. That's good for business, but it's also good for shareholders looking for the lowest-risk comeback stocks. That wide-moat capability technically makes Air Canada deceptively defensive, too. A bailout also isn't beyond the realms of possibility, either.

While it may not be explicitly stated as such, Air Canada also satisfies some of the time-sensitive cargo criteria that a **Cargojet** (TSX:CJT) investor might look for. Indeed, Air Canada began muscling in on this space earlier in the year. And why not? Air Canada has some of the capabilities of a cargo company. As such, it could potentially satisfy a buy thesis built around vaccine delivery and infrastructure.

Weighing aerospace stocks

But having touched on Cargojet, let's briefly run through its stats as an alternative. Cargojet doesn't command the same industrial space as Air Canada. This is because Cargojet is, well, focused on cargo. However, this does make it relevant to the vaccine infrastructure thesis. A nominal dividend yield 0.44% is on offer, opening up a slight passive-income angle. An estimated payout ratio of 17% by 2023 also hints at dividend growth.

The valuations couldn't be more different between these two stocks. Cargojet's P/B ratio 16.6 times book reflects in part the 116% gains the aviator made in the last 12 months. Now look at Air Canada, still in the red by 52% year on year, despite picking up contrarian tailwinds in the last three months. But though Air Canada has soared 50% in that time, its integral value, demarcated by a P/B of four, is still just a quarter of Cargojet's.

Annual earnings growth in the next one to three years in in the 50% range. From a shareholder point of view, though, Cargojet's total returns by mid-decade could hit 720%. Air Canada, conversely, is looking at 103% annual earnings growth in the same period. This looks about right, considering the potential spring-back in the commercial flight industrial. But returns for shareholders could be much lower, around 100%.

In summary, these two companies do different things, satisfy different investment strategies, and have different valuations and rewards. As such, while they both look similar at a glance, they could both be held at the same time with less risk of overexposure than might seem likely. Both names are also likely to be buoyed by a vaccine rollout, making for a key pair of stocks to buy for recovery upside.

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