Air Canada: Why I'm Still Passing on the Stock

Description

One of the most popular Canadian stocks over that last year has been none other than **Air Canada** (TSX:AC). This interest in Air Canada is not surprising. The stock currently trades nearly 60% below where it did at this time last year.

Investors understand that Air Canada's business is suffering substantially. Sales are down 90%, and the company is bleeding cash every day. Long-term investors also understand that it's not going anywhere, which is why the interest in Air Canada has been so strong.

Despite all this interest, though, that the stock hasn't done all that well. But while it remains cheap relative to historical standards, I'm not rushing to buy the stock.

I recognize it's the largest airline in Canada and has a strong market position. However, I also see a tonne of difficulties getting back up to pre-pandemic levels of business.

I have increasingly been warning investors to avoid the stock. Even after the vaccine news came out, I mentioned that the stock is facing considerable headwinds and burning millions in cash each day.

Since then, Air Canada stock has done nothing, trending mostly sideways and up just 3% over those nearly three months. Recently, there have only been negative developments that have come out.

Going forward, Air Canada does have potential, but for me to want to make an investment, I would have to see real progress in not just Canada's control of the virus, but the entire world's control of it. By then, though, I wouldn't be surprised to see the stock already at a much higher value.

So, if I think that Air Canada will be worth more in 18-24 months from now, why am I passing on the stock?

Simply put, I think there are several much better opportunities for investors today. Here is just one of the top Canadian value stocks I would rather own.

A Canadian stock with much more value than Air Canada

Investors interested in Air Canada stock because it's so cheap should instead consider **Corus Entertainment** (TSX:CJR.B).

Corus stock is just as cheap as Air Canada's, but its business is much less impacted. And unlike Air Canada, which is bleeding cash every day, Corus's free cash flow generation has been incredible over the last few years.

This is particularly notable in the last year, as the pandemic had a fairly large impact on sales. All this free cash flow has been crucial in keeping the dividend intact. It's also allowed the company to pay down a tonne of debt in the last few years, improving the business's position substantially.

At current prices, Corus trades at a trailing price-to-earnings ratio of just 4.3 times. This is extremely cheap. Plus, with its business continuously improving by the quarter, it's not just cheaper; it's a much better buy than Air Canada stock.

Currently, the highest target price from analysts is $9, which represents roughly 75% upside from today's market prices. Even looking at consensus estimates, though, Corus still has more than 25% upside.

The consensus target price has slowly been increasing, as analysts continue to see positive signs from Corus's business. So, going forward, Corus's target prices should only continue to trend upwards.

Lastly, on top of all the exciting capital gains potential that Corus offers investors, it also pays a 4.7% dividend.

Bottom line

It can be tempting to invest in stocks like Air Canada due to the major discount its shares are trading at. However, several Canadian stocks such as Corus offer investors much better value today.

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2. Investing

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2. TSX:CJR.B (Corus Entertainment Inc.)

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