



Forget Air Canada Stock: Find Value Here!

Description

Since February, **Air Canada** ([TSX:AC](#)) stock has experienced a substantial rally of close to 38%. The rally is driven primarily by the optimism in the global vaccine rollout and the hope that the coronavirus pandemic will finally be behind us.

Sure, as the economy is on the path of recovery, things can only get better for Air Canada from here. However, investors cannot ignore that to survive through the pandemic, the airline has taken on tonnes of debt.

Specifically, Air Canada is sitting on long-term debt of about \$8.1 billion, up from \$5.2 billion a year ago. Consequently, its long-term debt-to-capital ratio stands at 76%.

Moreover, its flight volumes aren't going to return to normal levels immediately. I'll have you know that last quarter, Air Canada's revenues tanked more than 80% year over year. It could take another year before the company returns to profit.

And even then, it could take another couple of years for earnings to normalize. Therefore, it would take more time to pay off \$2-3 billion to reduce its debt to more normal levels.

Yet, it could be the right time to buy Air Canada stock when its valuation is high. Since Air Canada is a cyclical stock, during times of economic expansion post pandemic, its earnings can grow super fast in a short time. That will drive the stock higher. However, it's not easy to [time the buy and sell](#) because of the highly unpredictable earnings.

Today, analysts are pretty much calling Air Canada stock fairly priced.

Here's another stock that offers tremendous value at current levels. **Enhouse Systems** ([TSX:ENGH](#)) had a strong year in fiscal 2020. Year over year, revenue climbed 30% to \$504 million, adjusted EBITDA per share grew 51%, and the dividend increased 22.5%.

M&A is a key part of Enhouse's growth strategy. Although the company continues its efforts in this area, the pandemic has slowed down its pace in completing transactions. As a result, it only managed

to spend about \$44 million in M&A during 2020, down from \$102 million in 2019.

The anticipated slower growth in the near term has dragged the tech stock down to below \$60 per share at writing. This provides an investment opportunity to buy the stock on the cheap. The 12-month analyst consensus target is 33% higher. A catalyst to drive shares higher can be the resumption of M&A activities to normal levels.

Importantly, [the company](#) has a disciplined M&A strategy that has driven high returns on equity of about 18% in the past five years. Moreover, it has a clean balance sheet with no bank debt and strong cash and short-term investment balance of \$252 million, up from \$150 million a year ago.

The company cares about its shareholders. Since it had excess cash last year, it paid a special dividend of \$1.50 per share on top of its normal annualized payout of \$0.54 per share.

The Foolish takeaway

Compared to Air Canada, Enghouse Systems's returns to shareholders have been much more predictable over the long term. The tech stock's 10-year returns were about 29% per year. In the period, it has also increased its dividend at a high pace of 21% per year.

In comparison, the airline stock delivered annualized returns of about 25% but with roller-coaster-like earnings. In summary, Enghouse's earnings quality, balance sheet strength, and attractive valuation make it a better investment today.

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