



## Between Air Canada and Shopify, Which Is a Better Buy?

### Description

Two stocks are moving in opposite directions. The stock of the loss-making company is rallying while that of a growth company is falling. Since January 31, **Air Canada's** ([TSX:AC](#)) stock has surged 40% post-2020 earnings over the hopes of a bailout. **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has declined 26% since mid-February after the management, in its earnings call, stated that it [expects](#) growth to normalize in 2021. Both the stocks enjoy strong momentum, which makes them volatile. Now among the two, which is a better buy?

The thing with volatility is that it is short term and driven by sentiments more than fundamentals. You can use volatility as a tool to buy a fundamentally strong stock at discounted prices.

### Is Air Canada a better buy?

Starting with Air Canada, the stock is rallying over hopes of a recovery. There is both demand and supply for air travel. But the travel restrictions are preventing the market dynamics to play. Once restrictions are lifted, air travel demand will pick up. Many airline bosses believe that the [air travel recovery](#) will mostly be in leisure travel, which is sensitive to prices.

Business travel, the cream of airlines and responsible for most of their profits, will not recover completely for a decade, putting pressure on AC's profits.

Even if the revenue recovers, the rising debt is the problem. AC ended 2020 with \$5 billion in net debt and \$8 billion in liquidity. The new debt is increasing AC's interest burden as the airline is paying 9% interest on this debt. Its net profit was 7.7% in 2019 when the airline was at its peak. The 9% interest will increase its expense significantly, making it difficult for the airline to return to profit for several years.

Cheap long-term debt is the need of the hour, and a government bailout will give AC just that. But even after the bailout, profit is not in the cards for AC for the next two years. Until AC shows signs of profit, its stock will be highly volatile as it cannot sustain the rally.

The right way to deal with such volatility is to invest for the short term. The stock is range-bound (\$20-

\$30), and the only way to make money is to buy the dip of \$20-\$21 and sell the rally of \$28-\$30. Right now, the stock is in the sell range.

## Is Shopify a better buy?

The next volatile stock is Shopify, which is falling because its growth rate is expected to normalize. The pandemic accelerated its revenue growth from 47% in 2019 to 86% in 2020. This accelerated growth drove the stock 170% last year. Now that the pandemic effect fades, the growth rate will normalize to 50%. Moreover, the first quarter will see a seasonal weakness. All these factors are leading to a pullback in the stock price. However, the stock will return to rally as shopping momentum picks up.

Shopify doesn't have significant debt. Moreover, it has been making losses before the pandemic. The pandemic-led revenue growth pushed the company into profit for the first time. It created a conducive business environment for e-commerce. Everyone from mom-and-pop-stores to non-tech-savvy customers moved to online retail, and Shopify is their platform of choice.

Shopify also used this opportunity to raise capital for future expansion. It is expanding its Fulfillment Network and adding new services to increase its average revenue per customer. The company has dual growth potential; first by growing along with the e-commerce market and second by gaining market share. Many discrete retailers are shifting from **Amazon** to Shopify.

Shopify's growth potential makes it a buy at its current price of less than \$1,400 and hold for the long term. If you already own Shopify stock, this is the time to add more stocks to your portfolio.

## Final thoughts

Don't get swayed by short-term optimism that has no fundamental backing. Jumping on to such a rally entails a huge risk of a downside. Instead, place your bet on fundamentals that have long-term growth potential. Between Air Canada and Shopify, the latter is a better choice.

### CATEGORY

1. Coronavirus
2. Investing
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### TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:AC (Air Canada)
4. TSX:SHOP (Shopify Inc.)

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