Like Air Canada Stock? I Like This Canadian Growth Stock Even Better!

Description

Air Canada (TSX:AC) stock had a terrible year last year due to the pandemic and resultant travel restrictions. The stock is turning around in anticipation of the recovery in travel demand after herd immunity against COVID-19 is reached. We're not there yet, but AC stock is raging ahead. Specifically, it rallied about 48% from $20 per share recently.

The market expects the airline company to swing back to profit again with full force post pandemic. That can lead to the stock recovering to the $40 level over the next two to three years. That would be a compound annual growth rate (CAGR) of 16% over two years and about 10.5% over three years.

Notably, Air Canada had to take on a lot more debt during the pandemic. Its debt-to-equity (D/E) ratio ballooned to 15.9 by the end of 2020 compared to 5.3 times a year before. The ratio is higher because of a bigger debt load and the company losing more than 60% of its shareholders' equity from a year ago.

Generally, in the long run, investors want to see rising shareholders' equity in a company. The shareholders' equity equals total assets minus total liabilities.

A better stock to buy than Air Canada stock

Cargojet (TSX:CJT) is a better buy than Air Canada stock. In contrast to Air Canada's (70%) lower revenues last year, Cargojet's revenues were boosted by 37%. Essentially, as a company with a monopoly in providing time-sensitive overnight air cargo services in Canada, Cargojet benefited from strong e-commerce sales during the pandemic.

Cargojet stock has pulled back as much as 32% recently. Primarily, the crash occurred after the growth stock had an exceptional year, rallying as much as 142% during 2020. After the selloff, the market is starting to buy the stock again. This is the cue to get in on the growth name.

Earlier in the year, Cargojet raised gross proceeds of $350 million from an equity offering priced at $213.25 per share. Right now, investors can buy shares on the **TSX** at a 15% discount!

Indeed, the growth stock is a bargain. Analysts have an average 12-month price target which represents near-term upside potential of almost 43%! That would be incredible returns seeing as the long-term market returns have historically averaged 7-10%.

Cargojet stock has outperformed the market for a long time. Despite the selloff, the stock has still delivered a CAGR of 35% over the last 10 years.

The e-commerce trend is here to stay and expected to grow at a faster pace than brick-and-mortar retail, which should continue to drive the growth in Cargojet.

Notably, Cargojet also took on more debt last year. However, it wasn’t nearly as bad as Air Canada. The company’s D/E ratio climbed to six at the end of 2020 versus three a year before. The ratio is higher because of 28% more debt and 37% lower in shareholders’ equity from a year ago.

The growth stock just raised its dividend by 11% earlier this month, which should boost investors’ confidence in the company.

The Foolish takeaway

Between Air Canada and Cargojet, I would go with an investment in the latter today. Cargojet should be less cyclical, deliver more persistent growth, and experience stronger price momentum than Air Canada stock.

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