Air Canada (TSX:AC) vs. Cargojet: Which Is a Better Buy?

Description

The COVID-19 pandemic continues to weigh heavily on airline companies, including **Air Canada** (TSX:AC). As the number of cases continues to rise all over the world, international travel continues to be severely impacted. However, the story could not be any more different for companies such as **Cargojet** (TSX:CJT).

While Air Canada is a passenger airline, Cargojet provides a network of air cargo services between 15 Canadian cities. We'll compare these two stocks and analyze which is a better buy right now.

Air Canada stock is down 50% from record highs

Shares of Air Canada are trading at $25.5, which is 50% below its record high. As air travel came to a standstill last year, the company burnt billions of dollars in cash. Air Canada had to raise debt capital and improve its liquidity position.

Air Canada sales are forecast to rise by 23% year over year to $7.16 billion. Further, in 2022, sales might almost double to $14 billion. However, analysts expect the company to report a loss per share of $6.6 this year and breakeven in 2022.

It will take another year or two for air travel to return to pre-pandemic levels. There is a good chance that the high-margin business vertical will remain subdued given corporates have embraced the work-from-home trend amid COVID-19.

Air Canada ended 2020 with $7.5 billion in cash and $13 billion in debt. Now, investors will be worried if the company is unable to make regular interest payments due to a severe decline in sales and the capital-intensive nature of the airline business.

The company reported a net loss of $4.65 billion in 2020. Though this loss is expected to narrow this year, Air Canada will soon have to generate positive cash flows to win back investor confidence.

Cargojet stock is trading 34% below all-time highs

Cargojet's customers generally pre-book their space and weight on the company's network. The remaining capacity is then sold on an ad-hoc basis to contract and non-contract customers. A major portion of Cargojet's network revenues is fixed due to allocations, and sales depend on the customer volume.

The company confirmed revenue and shipping volume on its domestic network is seasonal and customer demand is highest during Q4 driven by a surge in retail activity that coincides with the holiday season.

It also provides domestic air cargo services to multiple international airlines allowing the company to support lower demand legs, creating an additional revenue opportunity for the firm.

Cargojet transports around 1.8 million pounds of cargo in each business flight. While passenger traffic fell off a cliff amid the pandemic, the shift to online shopping increased demand for Cargojet's services driving its top line significantly higher.

Analysts tracking Cargojet expect sales to rise marginally by 0.9% to $675 million in 2021 and accelerate by 8.1% to $729.3 million in 2022. Cargojet is trading at a forward price-to-sales multiple of 4.23 and a price-to-earnings ratio of 32.6, which is reasonable for a growth stock.

Cargojet stock is trading 34% below its record high. Analysts have a 12-month average target price of $259, which is 56% above its current trading price.

The Foolish takeaway

It's quite easy to choose between Air Canada and Cargojet. While the former is grappling with negative profit margins and severe cash burn, the latter is well poised to improve top-line growth in 2021 and beyond.

Cargojet has a wide economic moat and a huge presence in Canada. The recent decline in its stock price provides investors an opportunity to buy a quality stock at a lower valuation and benefit from market-beating gains.

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2. TSX:CJT (Cargojet Inc.)

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Date
2025/07/05
Date Created
2021/03/24
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