Air Canada vs. Southwest Airlines: Which Is a Better Airline Stock?

Description

The airline sector continues to be impacted by tepid demand amid COVID-19. The last year saw multiple airlines lose billions of dollars when global and domestic travel came to a screeching halt. As borders were shut, air travel demand was hurt significantly in what was easily the worst year ever for companies part of this capital-intensive sector.

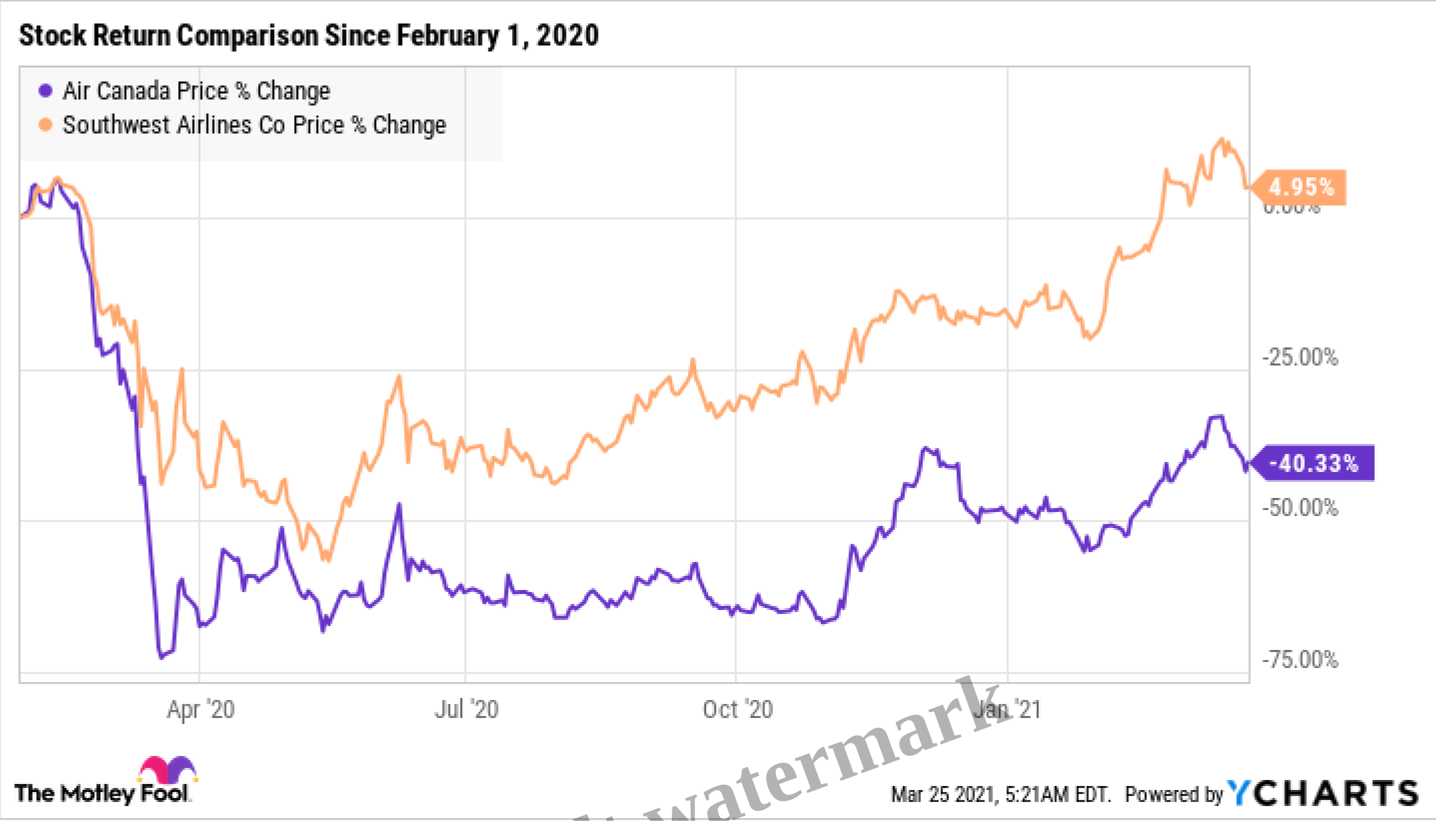
Now, as the world is expected to return to normalcy by the end of 2021, let's take a look at two airline stocks — **Air Canada** (TSX:AC) and **Southwest Airlines** (NYSE:LUV) — and analyze which is a better buy right now.

Southwest Airlines investors have recovered losses

Southwest Airlines is a low-cost carrier that reported profits for 47 consecutive years until the pandemic struck. The airline giant said demand trends temporarily improved last October, but rising COVID-19 cases a month later meant its revenue was down 65% year over year at US$2 billion in Q4.

The airline also posted a net loss of US$761 million, or US$1.29 per share, lower than the loss of US$1.68 per share forecast by analysts. Southwest Airlines expects weak booking trends to impact the top line in 2021 as well. While the first two months of the year are seasonally weak for air travel, the company expects to burn US$17 million per day in Q1.

Southwest Airlines ended 2020 with a cash balance of US$13.3 billion, which is offset by its debt balance of US$10.3 billion. This enhanced liquidity provides Southwest with enough flexibility to tide over these uncertain times.



Southwest Airlines stock is currently trading at US$57.7, which means it has gained close to 5% in market value since February 2020. Despite its massive losses, investors are betting on the low-cost airline to stage a turnaround when air travel begins to recover.

Southwest Airlines stock is trading at a market cap of US$34 billion indicating a price-to-sales multiple of 2.44. Analysts expect sales to increase by 53.8% to US$13.9 billion in 2021 and by 42.5% to US$19.83 billion in 2022.

The company's bottom line is also expected to improve from a loss per share of US$6.22 in 2020 to earnings of US$2.82 in 2022.

Air Canada stock is trading 50% below record highs

Air Canada stock was one of the top-performing ones on the TSX in the decade prior to the pandemic. The stock gained an astonishing 3,600% in that period. Shares of Air Canada then plunged over 80% in market value between February and March last year. Now, the stock is trading at $26.5, which is still 50% below its record high.

The company ended 2020 with $7.5 billion in cash and $13 billion in debt. We can see its liquidity position is not as strong as Southwest Airlines's, which has contributed to the ongoing weakness in Air Canada stock.

Air Canada reported a net loss of $4.65 billion in 2020, and though this loss will narrow in 2021, the company will have to focus on generating positive cash flows to win back the confidence of investors.

The Foolish takeaway

Both Air Canada and Southwest Airlines are expected to post a net loss in 2021. However, the impressive track record of Southwest Airlines and a stronger balance sheet make it a better bet right now.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:LUV (Southwest Airlines Co.)
2. TSX:AC (Air Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Date
2025/08/19
Date Created
2021/03/25
Author
araghunath