



## Air Canada or Transat A.T. Stock: Which Is the Better Buy?

### Description

The pandemic has devastated the airline industry. Yet today, an economic recovery looks to be underway. On top of that, federal and provincial budgets have been announced, including aid packages to companies like **Air Canada** ([TSX:AC](#)) and **Transat A.T.** ([TSX:TRZ](#)). So, with the possibility of flights soon in the air at pre-pandemic levels within the next year, which is the better buy: AC stock or TRZ stock?

### AC stock

AC stock doesn't look like the best option, considering the company was supposed to *buy* TRZ stock just this year. That quickly came to an end just before the federal government aid package of \$5.9 billion was announced. Yet shares jumped at the news that AC stock was being responsible in its spending.

But investors in AC stock today have a lot to look forward to, if they're patient. In the next few years, it's going to take everything the company has to pay off those billions in debt. The aid package is great, but a lot of it was used to pay back customers with COVID-related cancelled flights. So, it's what happened pre-pandemic that investors need to look at.

And that looks good. The company has made a climb back from the depths before, and that can happen again. That's because AC stock invested in fuel-efficient aircraft, its Aeroplan loyalty program, as well as reinvigorated its flightpaths. Cutting the [Transat A.T. deal](#) was a good move to save some cash and pay down debt when flights are in the air.

I'm not saying it's going to be easy. The company still has a hard journey. However, it's invested in cargo flights to bring in more cash. But this won't come close to taking over its past business plan of taking U.S. passengers on long-haul flights with layovers in Canada. The company needs short-haul flights, and Transat would have provided that. So, hopefully, there's more news in the future.

Shares trade at 50% below all-time highs. By next year, this company could be up there again. That makes valuations at 1.6 times sales and 4.9 times book value a steal.

## TRZ stock

Then there's TRZ stock. It would only make sense that since AC stock rose with the news of cancelling the deal, TRZ would sink. That's exactly what happened, with shares dropping 18% at the news. And the company received word that it would secure \$700 million in government funding. That looks like nothing compared to AC stock, but the company only has \$900 million in debt compared to AC stock and its \$13 *billion*. So, its debt could practically be paid off!

Of course, just like Air Canada, the company will use a lot of that money to pay back customers. As for the rest, \$390 million would go to supporting liquidity needs until the company recovers and can generate cash. That's \$110 million shy of the financial TRZ stock requested from the government.

But while it's true the company has less to pay off, TRZ stock has been struggling for a while. There were multiple offers to buy the company, but since AC stock cut the cord, it's unclear what's next for TRZ stock. So, while there might be a short-term boost from the aid package, long-term investors remain unclear about the company's future.

## AC stock or TRZ stock?

I think it's pretty clear that despite the billions in debt, AC stock is still the one to buy today. The company has a solid future ahead, and the means to make plans. TRZ stock, frankly, does not. The company trades at 32.1 times [book value](#), despite the low share price. It simply isn't likely to survive in the coming years, especially since the pandemic devastation.

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