Forget Air Canada (TSX:AC): This Airline Stock Is Better

Description

Investors consider **Air Canada** (TSX:AC) a rebound play for 2021. After all, the resumption of travel should benefit Canada's largest airline. However, much of the rebound has already been priced in. Air Canada stock is up 66% from late October, when the vaccines were first announced. Meanwhile, the government's bailout deal fell below expectations.

Altogether, Air Canada may not have much upside left, even if travel resumes as strongly as we expect. Instead, another airline stock presents a much better opportunity.

Cargojet's (TSX:CJT) stock more than doubled in 2020 as the company benefited from the e-commerce craze. As people shifted to online shopping, demand for the company's services increased, driving finances higher. Similarly, the topline grew by 37.4% as adjusted EBITDA expanded by over 86.8%.

Cargojet's business model

As the name suggests, Cargojet offers air freight services. Operating out of 16 airports, the company's overnight delivery services cover roughly 90% of Canada's population centres. Couple that with a contract from **Amazon** and you can see why Cargojet is in such a strong position in this space.

Cargojet's stock surged 150% from March 2020 to December 2020, at the height of the pandemic. However, the stock has pulled back since then.

Pullback

Cargojet stock has taken a significant hit, pulling lower by more than 20% from its all-time high. The pullback boils down to investors' apprehensions about the tech and e-commerce market. Several online shopping platforms have seen a decline in market value over this period.

Nevertheless, the company remains well positioned to benefit from the connections built over the past year. E-commerce shipping volumes are not expected to cool anytime soon. People are simply unlikely to give up the convenience of shopping online and having things delivered to them right away.

Outlook and valuation

The air services delivery company should continue to profit from its expansive national network and next-day delivery service. Similarly, Cargojet should also benefit from increasing prices annually and optimizing its fleet utilization rate.

With a price-to-sales and price-to-book multiple of four each, the stock is clearly undervalued. Bay Street analysts believe the stock could have as much as 44% upside from current levels. If that's true, the recent pullback may have created the perfect opportunity for long-term investors to get in.

Bottom line

Investors should consider ways to add exposure to industries that may rebound this year. As the economy reopens and travel resumes, air traffic may surge. However, the resurgence of travel is already priced into Air Canada. Instead, air freight company Cargojet may offer a better opportunity.

Cargojet has a near-monopoly on Canada's air cargo. Its partnership with e-commerce giants and its ability to effectively utilize its expansive fleet put it in an excellent position for 2021. Meanwhile, the stock is undervalued.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:CJT (Cargojet Inc.)

PARTNER-FEEDS

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

Category

1. Investing

Date

2025/08/27
Date Created
2021/05/16
Author
vraisinghani