Air Canada vs. GME: Which Stock Is a Better Buy Right Now?

Description

If you think **Air Canada** (TSX:AC) stock has made a strong comeback in the last 15 months, **GameStop's** (NYSE:GME) astonishing gains will leave you scratching your head. The airline and retail sectors were decimated amid COVID-19. While Air Canada stock fell from a record high of $52.71 per share to less than $10 in the first quarter of CY 2020, GME stock fell from $5.88 to $2.8 in this period.

At the time of writing, AC stock is trading at $27 per share while GME stock is priced at $248. So, since the start of April 2020, Air Canada shares have returned less than 200% while GameStop's gains stand at an astonishing 8,626%. In fact, GME stock touched a record high of $483 per share in January 2021.

So, what's driving the share prices of these companies, and which is a better bet right now?

Air Canada stock is on the road to recovery

As governments worldwide shut their borders, domestic and international travel came to a screeching halt due to rising COVID-19 infections a year ago. The capital-intensive airline sector was one of the hardest-hit industries as companies were losing millions of dollars each day.

Warren Buffett's **Berkshire Hathaway** had a stake in each of the four largest airlines south of the border. However, the Oracle of Omaha claimed that airlines are a highly cyclical industry and severely impacted due to macro-economic headwinds. Buffett exited this sector for good and vowed never to enter this space again.

But driven by federal benefits and the possibility of an economic turnaround have led to the recovery in airline stocks, including Air Canada. While AC stock is down 45% from record highs, the accelerated rollout of vaccines in developed countries will be a key driver for the tourism industry that is bound to experience pent-up demand.

Analysts expect Air Canada stock to increase sales by 8.9% to $6.35 billion in 2021 and by 123% to $14 billion in 2022. This will allow the company to improve its bottom line from a loss of $14.96 per share in 2020 to a loss of $0.12 per share in 2022.

GME stock is a high-risk bet

GameStop shares have gained on the back of a short squeeze initiated by a group of retail traders on Redditt. However, if you look closer, GameStop is a company that is fundamentally weak. A video game retailer, GameStop has been impacted by the shift towards digital gaming, removing the need for an unnecessary middleman making the company almost irrelevant in this supply chain.

GameStop is now looking to revamp its business model and shift towards online sales. It has replaced a majority of its executive management team and has onboarded e-commerce stalwarts such as Ryan Cohen that is driving investor optimism higher.

In fiscal 2021, GME's sales were down 21% year over year at $5.1 billion. It managed to reduce its net loss to $215 billion in 2021 compared to a loss of $471 million in the prior-year period driven by lower cost of goods sold and lower operating expenses as well as an income tax benefit.

But GME's exponential gains in the last few months render it a high-risk bet compared to Air Canada as a sell-off is on the cards given historical trends.

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araghunath