Forget Air Canada Stock: Buy This Growth Stock Instead

Description

There have been talks about a COVID-19 variant-driven fourth wave. A bumpy road lies ahead for economic reopenings. In the short term, there will be greater volatility in stocks like **Air Canada** (TSX:AC) that rely on smooth economic reopenings. It's better to avoid these stocks at this time. Instead, invest in companies like **Cargojet** (TSX:CJT) that can do well, even when coronavirus cases rise meaningfully.

Air Canada stock: Why you should avoid it today

Air Canada does well in times of economic expansion, when people are spending more on travelling. Right now, money is not the problem, as households are saving more money than usual during the pandemic.

The problem is that the pandemic continues to weigh on the demand for air travel, including business travel. Companies are making do with online video conferencing instead if plausible.

Air Canada's last-12-month (LTM) revenues declined nearly 78% year over year to $3.15 billion. Even though we can see some light at the end of the tunnel with the airline's revenue jumping almost 59% to $837 million in the second quarter (Q2), it's still a far cry from Q2 2019's revenue of $4.7 billion. That is, Air Canada's Q2 revenue was below 18% of Q2 2019 levels.

Moreover, the airline continued to withstand cash burn in Q2. Specifically, the net cash burn was $745 million, averaging roughly $8 million per day.

This has left the company with a poor balance sheet. Air Canada ended Q2 with a debt-to-asset ratio of about 98%. This means if the company were to liquidate tomorrow, shareholders will have little left.

Importantly, Air Canada stock has already rebounded meaningfully, doubling from a low of about $12.50 per share in 2020. At about $25 per share, there isn't a big enough margin of safety for a bet. If it were to fall low enough, it could be a speculative turnaround investment for those who are willing to take the risk.

Why buy this growth stock today?

Cargojet is a better growth stock to invest your money in today. Cargojet has a monopoly in Canada, providing time-sensitive air cargo services to major cities in North America. Because management sees continued e-commerce growth, it has invested in expanding its fleet. Meanwhile, it has maintained a decent balance sheet. Its debt-to-asset ratio of about 58% is much more palatable than Air Canada's.

Last year, it increased revenues by 37% to $668.5 million, while boosting its EBITDA, a cash flow proxy, by 82% to $228 million. Partly, it was from expanding the EBITDA margin from 25.7% in 2019 to 34.1% in 2020.

Its EBITDA margin appears to be sustainable, as its Q1 EBITDA margin was 34.9%. Cargojet's Q1 revenue was $160.3 million, up 30% year over year. Combining the sustained EBITDA margin and revenue growth, it resulted in a Q1 EBITDA of $56 million, an increase of 42% year over year.

The Foolish investor takeaway

If we were to experience more setbacks from the pandemic, Cargojet's air cargo service business will perform much better than Air Canada. Therefore, investors who are interested in Air Canada stock should also research Cargojet as a potential long-term investment for growth. Cargojet stock has about 32% near-term upside potential.

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