2 Canadian Stocks to Buy Instead of Air Canada (TSX:AC)

Description

Canada's most dominant carrier, **Air Canada** (TSX:AC), hasn't taken off in 2021. The airline stock's year-to-date gain is only 9.27%, which isn't enough to attract investors' attention. While some market analysts are bullish about the growth prospects, the fast-spreading Delta variant could dampen passenger travel demand.

Exchange Income Corporation (TSX:EIF) and **Cargojet** (TSX:CJT) also operates in the aviation industry. However, both are making money in 2021, not burning cash like Air Canada. Buy them instead of the country's flag carrier for capital gains and dividend income.

Diversified operations

Unlike Air Canada, Exchange Income is a dividend stock. You have a cushion in case of a share price drop. As of August 6, 2021, the stock trades at $41.31 per share and pays a lucrative 5.55% dividend. The total return could be higher as analysts predict the share price to climb12.32% within a year.

Although revenue fell slightly by 2% in Q1 2021, Exchange Income reported a 412.68% increase in adjusted net earnings to $10.55 million versus Q1 2020. The $1.51 billion company can withstand economic cycles because of business diversification.

According to management, the quarterly results could have been better if not for the travel restrictions that caused a decline in demand for aerospace & aviation products and services. The said operating segment provides scheduled airline, charter service, and emergency medical services to communities in Canada.

The other operating segment, manufacturing, provides various manufactured goods and related services in several industries and geographic markets throughout North America. This segment posted an 11% and 28% increase in revenue and EBITDA over the prior period.

Strong growth momentum

Cargojet transport sensitive cargo, not passengers, across North America. The company rewarded investors with a total return of 109.37% in 2020, while Air Canada investors lost 10%. Now is an excellent time to scoop the stock as the price is 25.18% lower than its 52-week high. At $187.06 per share, the dividend yield is a modest 0.56%.

The e-commerce boom boosted air cargo services. Cargojet President and CEO Dr. Ajay Virmani said, “What was previously a consumer-led shift to digital is now rapidly becoming a merchant-led shift, accelerating the move to e-commerce even further.”

Business momentum continues, as evidenced by the financial results for the first half of 2021. Canada’s cargo airline reported $90.2 million in net income versus the $29.4 million net loss in the same period last year. Revenue increased 4.17% year-over-year. Expect Cargojet to capitalize on the windows of opportunities.

Dr. Virmani said, “With shifting supply chains, triggered by a significant reset of the international passenger routes, we also see opportunities to expand and diversify on select international lanes.” Based on analysts’ forecasts, the stock’s return potential in the next 12 months is 34.54%, not including the dividends.

Embattled airline

Air Canada and union members are waiting for the government’s plan. It might propose or require that workers in federally regulated sectors, including airlines, be vaccinated. Many are worried about the more contagious Delta variant.

The embattled airline company continues to struggle in 2021. In Q2 2021, the average daily cash burn was $8 million. Management expects the amount to reduce to between $3 million and $5 million per day in Q3 2021. Meanwhile, Exchange Income and Cargojet have picked up momentum already.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:CJT (Cargojet Inc.)
3. TSX:EIF (Exchange Income Corporation)

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