Forget Air Canada Stock: Here's a Better Buy for a COVID Stock Turnaround

Description

Some investors are interested in COVID stocks whose stock prices are still substantially depressed from pandemic impacts. **Air Canada** (TSX:AC) stock is at the top of the "COVID stock turnaround" list. However, **Chorus Aviation** (TSX:CHR), a related stock to Air Canada, is a better buy. Here are a few reasons why.

COVID impacts

Air Canada is the largest domestic and international airline in Canada. In 2019, its normalized revenue was $19.1 billion, and its operating margin was 8.6%. In 2020, its revenue dropped about 70% because of the pandemic. Its trailing 12-month revenue is still less than 24% of its 2019 levels. The company could not help but book a net loss of $4.6 billion last year.

Chorus Aviation provides aircraft leasing and aviation services. In 2019, its normalized revenue was almost $1.4 billion, and its operating margin was 14.7%. In 2020, its revenue dropped more than 30% because of the pandemic. Its trailing 12-month revenue is about two-thirds of its 2019 levels. Importantly, even though the company experienced a large cut in earnings, the business remained profitable last year.

Air Canada stock has less upside potential

One stock analyst may be biased. So, let's compare the upside of Air Canada stock and Chorus Aviation based on their analyst consensus price targets. *Yahoo Finance* shows 16 analysts covering Air Canada stock with the airline stock having 39% 12-month upside potential from its recent trading price of $21.52 per share. In comparison, Chorus Aviation has nine analysts covering it. The stock has almost 53% 12-month upside potential from its recent quotation of $3.51 per share. Longer term, both stocks have the potential to double investors' money.

No downside risk?!

Interestingly, analysts think that there are no downside risks for either industrial stock. The most bearish analyst thinks Air Canada stock can climb more than 11% over the next 12 months. In the same period, the most bearish analyst projects that Chorus Aviation stock can appreciate 35%.

Balance sheet

The following data is according to the businesses' balance sheets at the end of the latest quarter.

Air Canada's debt-to-equity ratio (D/E) went from 2019's 5.3 times to 208 times due to the shrinking of its stockholders' equity, which dropped by almost 97% from 2019's $4.4 billion to $145 million.

In stark contrast, Chorus Aviation's debt-to-equity ratio essentially stayed flat. The 2019 level was 3.86 times while at the end of Q3, the D/E was 3.85 times. From 2019, Chorus Aviation's stockholders' equity rose 13% to almost $686 million.

So, if the businesses were to liquidate tomorrow, Air Canada shareholders will only get $145 million, while Chorus Aviation shareholders will share about $686 million.

Investor takeaway

If Air Canada stock is on your buy list of turnaround COVID stocks, you should also give Chorus Aviation a closer look. Both stocks have moved in tandem in the last year, but the latter is in a much better financial shape. Additionally, over the near term, analysts believe Chorus Aviation can provide greater upside.

AC and CHR data by YCharts

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