Like Air Canada Stock? Buy This TSX Stock to Take Flight Sooner

Description

For some reason, **Air Canada** (TSX:AC) stock is super popular among investors — probably as a post-pandemic turnaround investment idea. The airline stock can more than double (by rising 142%) if it revisits its 2019 altitude. The recovery will take time, though. Last year, the company estimated that it will take three years for its revenue to return to 2019 levels.

Like Air Canada stock? Be ready for a wild ride!

Short-term volatility is inevitable. Aside from the Air Canada stock price being sensitive to news about the novel coronavirus, the industrial stock is simply a stock with above-average volatility. According to *Yahoo Finance*, the stock's recent beta is 2.41, which means the stock is 2.4 times more volatile than the market. So, if the market rises or falls 1%, Air Canada stock will rise or fall about 2.4%.

When Air Canada reported its Q3 results on November 2 with operating revenue almost a triple versus Q3 2020 and the operating loss shrinking to $364 million versus a loss of $785 million in the prior year's quarter, the stock responded by *appreciating roughly 15% in a week*. Now, that's a nice swing to the upside — a ride that's enjoyable for investors. That in itself is a respectable return given historical long-term market returns range from 7% to 10%.

Air Canada is adapting, but…

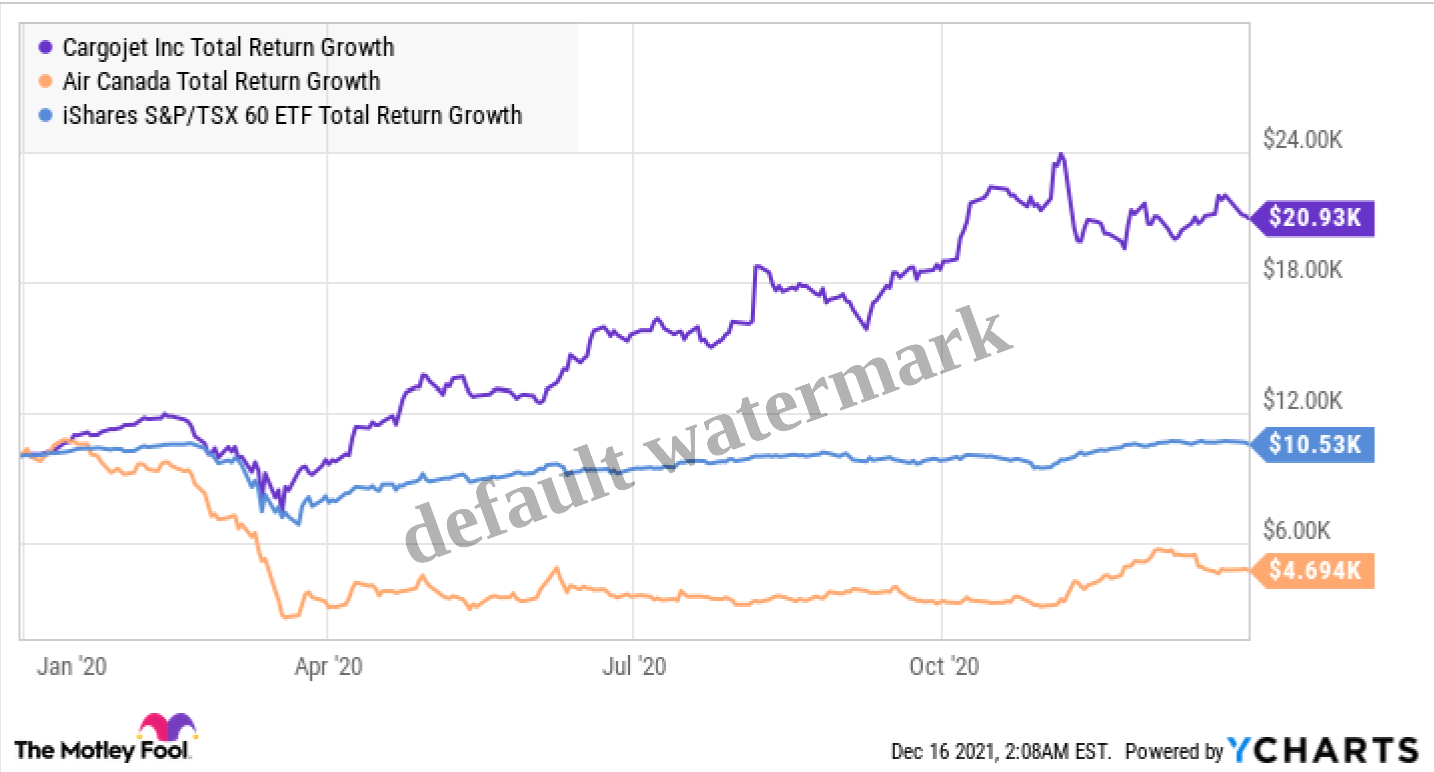
Its Q3 revenue of $2.1 billion is still a far cry from the Q3 2019 level of almost $5.6 billion. However, the revenue mix has improved, as Air Canada has adapted by making inroads in cargo revenues, which surpassed $1 billion in the first three quarters of the year.

Unfortunately, Air Canada's balance sheet is very shaky. Its long-term debt-to-equity ratio is almost 89! Specifically, that's nearly $12.9 billion of long-term debt to $145 million of stockholders' equity. The company has a junk credit rating — an S&P credit rating of B+.

That said, analysts are not betting against Air Canada stock. Across 16 analysts, they have a 12-month average AC stock price target of $29.97 for near-term upside potential of almost 45%.

You might like this airline stock even more

If you like the more stable demand of air cargo revenue, you should also research **Cargojet** (TSX:CJT) stock, a pure-play air cargo airline. Its Q3 revenue of $189.5 million was 61% higher than the 2019 revenue levels — revenues that continued to grow with a higher gross margin during the pandemic. This Q3, its gross margin tapered off to 28.5% — higher than Q3 2019's 25.4% but below Q3 2020's 35.9%.



Total Return Level YCharts

The industrial stock outperformed in 2020. Above is its stock price performance in 2020 on a $10,000 initial investment versus Air Canada stock and the Canadian stock market benchmark. The pullback this year is a buying opportunity. According to 12 analysts, the growth stock can trade 50% higher than the recent stock price of $165.84.

Importantly, Cargojet's balance sheet is much stronger. Its long-term debt to equity ratio is 53%. It makes CJT stock much more comfortable to hold through volatility than Air Canada stock.

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2. TSX:CJT (Cargojet Inc.)

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