



Forget Air Canada Stock: This Airline Is Much Cheaper

Description

Throughout the pandemic, airline stocks have been impacted significantly, and understandably so. But while much of the focus among Canadian investors has been on **Air Canada** ([TSX:AC](#)) stock, **Chorus Aviation** ([TSX:CHR](#)) is another airline stock that looks incredibly cheap.

The two have separate business models. Air Canada is, of course, primarily a passenger airline, although, it has increased its cargo capacity lately, a necessary move to help limit the blow from the pandemic.

Air Canada has a tonne of domestic operations, but its international operations are also significant, part of why it's been so heavily impacted by the global pandemic.

Chorus Aviation also receives revenue from operating airlines; in fact, it's partnered with Air Canada. However, Chorus also earns cash from leasing operations and doing aircraft maintenance.

So as the pandemic finally winds down, here's why Chorus Aviation could be a better buy than Air Canada stock.

Air Canada stock

Investors have been waiting for recovery and restrictions to drop, allowing Air Canada to begin its turnaround. So although Air Canada is on its way to improving its business, it's still far from a full recovery, as restrictions around the world are sure to continue weighing on its international operations.

In the meantime, improving domestic operations as well as a continued commitment to cargo should help Air Canada to continue earning positive [free cash flow](#), as it did in the fourth quarter of 2021. In its recent earnings report, management said it's planning to acquire three additional **Boeing** 767F for its cargo operations by the end of 2022, plus another four in 2023.

The earnings report also showed that Air Canada stock finally posted positive [EBITDA](#) this quarter alongside the free cash flow. However, the [EPS](#) was still negative at a loss of \$1.38.

In 2022, analysts estimate Air Canada will continue to trim its losses. However, according to estimates, it will still report negative EPS. And even if you took analysts' 2023 estimate of EPS, which is currently \$2.02, Air Canada still trades at a forward [price-to-earnings](#) (P/E) ratio of roughly 13 times today. That's not just expensive, it's also overvalued when you compare it to the major airlines in the United States.

Why Chorus Aviation might be a better buy today

Chorus, on the other hand, has already seen a stronger recovery than Air Canada, plus it looks to be trading cheaper, which is why it's the top airline stock to buy now.

In Chorus' recent earnings report, the company posted positive EBITDA just like Air Canada. However, it also posted positive EPS. That's not all, though. Both its EPS and EBITDA beat analyst estimates by over 10%.

The company's regional aircraft services segment has been responsible for Chorus' strong performance in the fourth quarter and should continue to provide resilient revenue for the company. In addition, Chorus announced that 56 of its 62 aircraft in its leasing segment are currently being leased, showing that the company is operating near peak capacity.

Going forward, Chorus can use the free cash flow generated from its regional airline services to expand its leasing portfolio and continue to grow the business post-pandemic.

So right now, it's a more resilient business than Air Canada, although it does rely on Air Canada for much of its revenue. Nevertheless, Chorus has proven to have robust sales and is well on its way to recovery. Furthermore, it's also cheaper than Air Canada stock.

While Air Canada trades at a 2023 estimated P/E ratio of roughly 13 times, for Chorus, that's closer to 5.9 times. Plus, even if you take its 2022 estimated P/E ratio, since Chorus is expected to make a profit this year, it's still only trading at a little more than seven times its estimated earnings, showing it's significantly [undervalued](#).

So if you're looking for a cheap airline stock to buy as the economy recovers, Chorus looks like it offers much better value than Air Canada today.

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