1 Airline Stock to Buy Now and 1 to Sell

Description

The airline industry was decimated with the onset of COVID-19. Over the last two years, most airline companies had to raise debt capital to offset cash-burn rates amid economic lockdowns and travel bans all around the world. While infection rates are still rising in certain parts of the world, several countries have relaxed COVID-19 measures and are limping back to normalcy.

Despite pent-up demand for travel and the reopening of borders, not every airline stock is a buy. Here, we'll analyze why **Cargojet** (TSX:CJT) should be on your shopping list and why **Boeing** (NYSE:BA) is a high-risk bet.

Boeing

Yesterday, shares of Boeing slumped by 3.6% after the company's 737-800 aircraft crashed in China with 132 passengers on board. Surveillance camera footage suggests the aircraft nosedived into the mountainous Guangxi region before crashing, raising concerns over Boeing's safety mechanisms.

Investors should note that several countries grounded Boeing's 737 MAX aircraft for close to 18 months after two crashes occurred in 2019. Further, the production of other Boeing airplanes was also curtailed to focus on additional safety checks. While the 737-800 model is different from the MAX, every airline crash will bring safety regulations into focus.

It has been a difficult three years for Boeing investors, as shares have plunged by 48% since March 2019. Sales were first impacted by the issues related to 737 MAX and then slumped due to tepid demand following COVID-19, as airline carriers scaled back flying.

Boeing reported sales of US$14.8 billion in Q4 compared to US$15.3 billion in the year-ago period. In Q4 of 2018, the company reported sales of US$28 billion. We can see why BA stock has grossly underperformed the broader markets in the last three years.

The company ended 2021 with net debt of US$40 billion, compared to $35 billion in 2018. However, it will be difficult for Boeing to reduce its debt for another two years given the uncertainties surrounding the airline industry.

Cargojet

One of the top-performing airline stocks, Cargojet has returned 2,360% to investors in the last 10 years. Despite its stellar returns, Cargojet stock is down 34% from all-time highs, valuing the company at a market cap of $2.79 billion.

Cargojet provides overnight air cargo services in Canada. These services include the operation of domestic air cargo network services between 14 cities in North America, and the provision of dedicated aircraft to customers on an ACMI (aircraft, crew, maintenance, and insurance) basis. It ended 2021 with an operating fleet of 31 aircraft.

It’s the only Canadian network that enables next-day service for the courier industry to 90% of the country’s population, which is a strong competitive advantage. Cargojet’s long-term customer contracts as well as minimum revenue guarantees and cost passthroughs allow provisions for increases in variable cost overheads.

Cargojet has increased sales from $455 million in 2018 to $758 million in 2021. Analysts expect sales to increase by 16% to $880 million in 2022 and by 8.2% to $952 million in 2023. Due to an inflationary environment and higher fuel prices, Bay Street expects adjusted earnings to fall by 31% to $6.51 per share in 2022.

Analysts tracking CJT stock expect it to gain 46% in the next 12 months, given consensus price target estimates.

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