



## Air Canada vs. Descartes: Which Is a Better Buy?

### Description

Buying has returned to the Canadian stock market after the U.S. Federal Reserve hiked interest rate by 25 basis points. The Fed announced plans for more hikes throughout the year. After the announcement, investors started pricing in higher bond yields. There was buying in airline and technology stocks. **Air Canada** ([TSX:AC](#)) stock surged 16%, while **Descartes Systems** ([TSX:DSG](#))([NASDAQ:DSGX](#)) stock remained unchanged.

### Choosing a better buy the Warren Buffett way

If you look at the year-to-date stock performance, Air Canada looks like a better buy with its 7.35% growth, whereas Descartes Systems stock fell 6%. This reminds me of [Warren Buffett's](#) quote: "If past history was all that is needed to play the game of money, the richest people would be librarians."

When choosing a stock, don't look at its past growth. Look at the business and its ability to sustain the hardships and make money when spring comes. Buffett also said, "In the business world, the rear-view mirror is always clearer than the windshield."

This rear-view mirror is the balance sheet during the crisis.

### The rear-view mirror of Air Canada

Comparing AC and Descartes is like comparing apples with oranges. AC is in a capital-intensive industry, where high leverage is normal. But how much leverage can an airline handle? AC has a net debt of \$7.1 billion, and it reported a net loss of \$3.6 billion in [2021](#). The airline did not use the government bailout completely. This is good for equity shareholders whose interests won't be diluted. That is what drove Air Canada stock.

But there are many challenges ahead for airlines:

- COVID cases are rising again, which could temporarily slow travel.

- The Russian sanctions have made it [difficult](#) for airlines to travel from west to east, as Russian airspace is now a no-fly zone.
- Planes have to take a longer route, and rising oil prices are not helping.
- In addition, the rising Fed interest rate could make debt expensive for AC. The airline already has expensive debt, with an interest rate as high as 9% because of its credit rating.

The only ray of hope for AC is more travellers, especially for the long-haul and business class, as that is where profits lie. Even though AC stock surged 16% in two weeks, it is range bound and unlikely to cross \$28 (a 17.5% jump from the current level) for the next two years. I was bullish on the stock last year. I expected it to touch \$35 if the airline refused a bailout. But the war and rising interest rate forced me to change my stance.

If Air Canada is out of the picture, is Descartes a good choice? Let's find out.

## The rear-view mirror of Descartes

Descartes is a software technology company that offers supply chain management solutions. As it is not a capital-intensive business, it doesn't have any long-term debt. It has US\$213.4 million in cash reserves. The company has a diversified client base across geographies and verticals. It helps companies transit people, information, and cargo from one place to another.

The pandemic and now the war have disrupted the global supply chain. This challenge is an opportunity for Descartes, as its services are needed more than ever. The trade has slowed in some verticals, but it will gradually pick up. And when it does, there will be pent-up demand.

During the pandemic, the stock surged 80% from March 20 to August 20, 2020, as strength in e-commerce offset weakness in airline and industrial goods. The company enjoys a healthy adjusted EBITDA margin of 44%, which means it is running its business profitably.

The war and Russian sanctions have created a temporary slowdown in global trade. But Descartes has enough bandwidth to withstand a slow period and convert the upcoming challenges into trade opportunities. The stock is trading at 55 times its forward EPS, which means investors have priced high-profit expectations.

## Which is a better buy: Air Canada or Descartes?

AC's fundamentals and upcoming challenges are too high a risk and too less a reward. Descartes, however, has the potential to grow steadily in the long run. Descartes is a better buy.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NASDAQ:DSGX (Descartes Systems Group)
2. TSX:AC (Air Canada)
3. TSX:DSG (The Descartes Systems Group Inc)

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