Forget Air Canada (TSX:AC): Buy This 1 Airline Stock Instead

Description

Air Canada (TSX:AC) is in recovery mode thanks to the easing of travel restrictions, ongoing vaccinations, and an uptick in bookings.

Canada's largest airline company impressed with its latest financial performance. Its Q4 operating revenue stood at $2.73 billion, reflecting improvement on a year-over-year and sequential basis. Recovery in demand, capacity expansion, and strength in cargo revenues supported its top line. Further, strong Aeroplan program billings and improving trends in the bookings of Air Canada Vacations are positive.

Air Canada remains upbeat and expects advance ticket sales to trend higher, despite the challenges from the Omicron variant of the coronavirus. Moreover, Air Canada recently provided an optimistic 2022 outlook that indicates a further recovery in capacity, which will support its revenue and profitability.

Air Canada plans to expand ASM capacity (available seat miles capacity to generate revenues) by about 150% year over year in 2022. This represents about 75% of 2019 ASM levels.

Overall, vaccinations, rebound in travel demand, ongoing momentum in the air cargo business, and cost-control measures augur well for Air Canada's recovery.

While things are gradually looking up for Air Canada, its stock hasn't had much of a run this year. Air Canada stock has increased by only about 11% in 2022. Meanwhile, it is down about 13% in one year. Also, it represents a steep discount to the pre-pandemic levels.

What's keeping Air Canada stock from flying high?

Despite the improving revenues and capacity, the uncertainty related to the virus continues to play a spoilsport. Further, the dilution from equity financing, high debt, and increase in jet fuel cost limits the upside in Air Canada stock in the near term.

It's worth noting that since March 2020, Air Canada has increased its cash position through a series of debt and equity financing transactions. Due to these transactions, Air Canada's net debt increased to $7.12 billion in 2021 compared to $4.98 billion in 2020.

The dilution due to equity financing and increase in debt suggest that Air Canada stock is fairly valued at current levels.

Now what?

Despite the near-term challenges, Air Canada has the potential to deliver solid returns in the long term. However, I see a better investment opportunity in **Cargojet** (TSX:CJT) stock in the airline industry.

Cargojet's ability to consistently deliver strong financial and operational performance suggests that it could continue to outperform the broader market averages in the coming years. Its resilient business, long-term contractual arrangements, fuel-efficient fleet, ability to pass through costs to customers, and CPI-based price increases augur well for growth and support my bullish outlook.

Furthermore, its next-day delivery capabilities to over 90% of the Canadian households provide a competitive advantage over peers.

Overall, Cargojet's solid domestic business, opportunities in the international segment, deal with DHL, and benefits from growing penetration of e-commerce will likely drive its financials and, in turn, its stock price. Cargojet stock has witnessed a healthy pullback in the recent past, representing a good entry point at current levels.

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