



Airline Stocks Are Crashing; Is This an Opportunity?

Description

How does one become a millionaire? Simple. First become a billionaire, then invest in airlines.

So goes a saying about the airline industry widely attributed to **Virgin** founder Richard Branson — one that has held true far too often. Airlines are known for providing dismal returns to investors, so much so that Warren Buffett once said that if capitalist had been present at Kitty Hawk back in the early 1900s, he should have shot Orville Wright.

In 2013, such quotes were not heard often. Airline stocks did remarkably well — **Air Canada** (TSX:AC.B) was the best performing stock on the TSX last year, rising 320%. Shares of **WestJet Airlines** (TSX:WJA) and **Transat** (TSX:TRZ.B) also made gains during the year, rising 41% and 113% respectively.

But this year has been more of a familiar story. The airline stocks are way down, mostly due to a weak Canadian dollar, which makes jet fuel more expensive. But does this create a buying opportunity?

Air Canada

After such a wonderful year last year, shares of Air Canada are down more than 40% since their high in mid-January. The weak Canadian dollar has put such pressure on costs that CEO Calin Rovinescu is considering implementing additional fees on passengers. Such a move would surely infuriate customers, but underscores how thin the profit margins of airlines can be.

WestJet

WestJet Airlines has seen its shares decline by 15% this year, also hurt by the weak loonie. But last week **RBC** analyst Walter Spracklin still downgraded the company's shares, claiming that WestJet was unable to hold on to fare increases. Part of the reason is the rollout of Encore, WestJet's low-cost subsidiary.

Like Air Canada, WestJet reports its first-quarter results in early May. WestJet is consistently the most profitable of the three airlines, but if the Canadian dollar remains weak, the company's investors could

be in for a rude awakening.

Transat

Transat was the latest victim of the awful environment. After reporting a wider-than-expected loss on Thursday, the shares slid nearly 20%. Again, the weak Canadian dollar was the culprit, accounting for about half the loss. The airline has at least gotten a boost from the cold weather, which increases demand for the kind of vacation packages that Transat offers.

Foolish bottom line

So now only one question remains: Is this an opportunity? And while it is impossible to answer that question with complete confidence, investors are probably better off staying on the sidelines. In fact, most investors would do well to never buy an airline stock in their entire lives.

If the Canadian dollar were to recover, so would the shares of these companies. But betting on that happening would be more a form of gambling than investing.

CATEGORY

1. Investing

Category

1. Investing

Date

2025/07/27

Date Created

2014/03/18

Author

bensinclair

default watermark

default watermark