

Sell Oil Stocks; Buy WestJet Airlines Ltd. and TransForce Inc Instead

Description

Oil prices have recently been weak, prompting Warren Buffett to sell a large portion of his oil positions in the second quarter.

The decline in oil is an obvious negative for oil producers, but a positive for the economy as a whole. When oil prices drop, many industries experience an overall improvement in their bottom lines and consumers see extra cash in their pockets.

Oil is refined into gasoline and diesel, and although oil and these fuels do not move in lock-step, there is a really high correlation between them. About 71% of gasoline's cost is related to crude oil prices. Lower gasoline prices result in cheaper costs to transport goods, a major cost-saver for companies and individuals.

Oil companies may suffer as prices drop, but there will be some major beneficiaries of lower oil prices. Here are two companies poised to benefit from the drop in oil's value.

1. WestJet Airlines Ltd.

Airlines have two major operating costs: fuel and labour. As a result, fuel prices and an airline's profitability are directly correlated. The relationship is in fact so strong that on days when oil makes a sharp movement in either direction, airlines often follow suit. While many airlines attempt to smooth oil's impact on their bottom lines by hedging, hedging is not an exact science, as large fluctuations in oil prices will still affect an airline that has made the best attempt to fuel hedge.

Two Canadian airlines that stand to benefit from falling oil prices are **WestJet Airlines Ltd.** (TSX: WJA) and **Air Canada** (TSX: AC.B). Both companies recently posted record-setting quarterly results, but I like WestJet over Air Canada for its outlook. In addition, although most of the metrics in Air Canada's earnings were positive, the company's average fare per mile declined 2.1% in the second quarter, and the company expects yields to fall further this year as the airline adds more economy seats.

WestJet is taking its current strong financial position as an opportunity to expand. When the company reported a jump in sales, growth in passenger revenue per available seat mile, and growth in passenger numbers, it also reported that it would lease new aircraft and expand its overseas routes. With declining fuel costs, the company can likely do this profitably.

2. TransForce Inc

Another sector that stands to benefit from lower oil prices is the shipping and trucking sector. One company that stands out in this sector is **TransForce Inc** (TSX: TFI). A few months ago I would have also looked at **Contrans Group Inc** (TSX: CSS), but TransForce recently launched a friendly takeover offer for Contrans Group for \$14.60 in cash per share. Contrans Group's board has recommended that

shareholders accept the offer.

TransForce used to be a more pure-play trucking company, but now it has diverse operations that all benefit from lower fuel costs. The company transports packages and is also a same-day courier. It also operates in less-than-truckload, truckload, and various specialized services, including rig moving, logistics, and waste management. The acquisition of Contrans, if successful, will further diversify TransForce's offerings. Contrans provides bulk, tank, flatbed, and other transportation services in Canada and parts of the United States.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:TFII (TFI International)

Category

1. Investing

Date

2025/09/07

Date Created

2014/08/20

Author

lklingel

default watermark

default watermark