

Chorus Aviation Inc. Is a Better Buy Than Air Canada and Westjet Airlines Ltd.

Description

With market caps over \$3 billion, **Air Canada** ([TSX:AC](#))(TSX:AC.B) and **WestJet Airlines Ltd.** (TSX:WJA) are highly mentioned in research looking for potential investments in the Canadian airline industry. There is one company, however, that looks even more attractive, and should benefit from the others' success.

Chorus Aviation Inc. (TSX:CHR.B) operates as a capacity supplier for Air Canada rather than as an independent carrier flying under its own colours. This makes them more like **SkyWest** or **Republic Airways Holdings**, companies that also operate flights for major airlines.

As we will see, this business strategy has given Chorus some clear advantages.

A unique position in the industry

While Chorus handles the aircraft and flight operations, Air Canada handles the scheduling, pricing, product distribution, seat inventories, marketing, advertising, and customer service. Air Canada is in charge of collecting ticket revenues and in turn, pays Chorus a pre-negotiated rate.

A major risk is that 99% of Chorus' revenue come from Air Canada. If Air Canada faces financial difficulties or opens up its capacity agreements to other carriers, Chorus would be in major trouble. Fortunately, Air Canada seems to be improving its financial position at a rapid rate. More importantly, the agreement between Chorus and Air Canada currently runs until the end of 2025, mitigating this risk for at least a decade.

A major dividend payer

Over the past five years, Chorus's stock has consistently had a dividend yield in excess of 10%. Its current dividend (raised for three years in a row) gives investors a 7.58% yield. While this is lower than the historical average, the company is only paying out less than 80% of earnings. For 2016 the payout ratio is expected to drop to less than 60%, giving the company plenty of room to continue upping the payout.

In comparison, Air Canada hasn't paid a dividend over the previous five years at all. WestJet's payout, meanwhile, has always yielded less than 2% annually. Chorus's reliable stream of revenues derived from the pre-negotiated rates from Air Canada has allowed the company to pay out dividends well above the rest of the airline industry.

An attractive valuation

Despite Chorus's higher and more consistent dividend yield, it still trades at a valuation that's in line with Air Canada and WestJet. Chorus only trades at 4.7 times price to cash flow, resulting in a 21% cash flow yield. WestJet, meanwhile, trades at 4.5 times and Air Canada at 3.0 times.

Although trading at a slight premium, Chorus has a much higher flexibility in what it does with this cash flow. While other airlines are using extra cash to expand operations or renovate terminals, Chorus doesn't need to put as much capital back into the business. Chorus also receives payment from Air Canada whether or not the planes are full. These factors allow Chorus to dedicate that excess cash to dividends for shareholders.

A hidden value

Trading at only 7.7 times next year's earnings, Chorus trades at a wide discount to the market average. With a 7.58% dividend, it also has a yield that is two to three times that of the TSX index. If you're looking to invest in the Canadian airline industry and want an alternative to the major carriers, Chorus is for you.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:CHR (Chorus Aviation Inc.)

Category

1. Dividend Stocks
2. Investing

Date

2025/08/21

Date Created

2015/06/23

Author

rvanzo

default watermark

default watermark