



Investors: Why You Should Prefer This Stock Over Air Canada and WestJet Airlines Ltd.

Description

Many investors—including the greatest of all time, Warren Buffett—have made it a rule to never venture near airline stocks.

At first glance, this seems a little odd. Take a look at **Air Canada** ([TSX:AC](#)), our nation's largest airline. Thanks to strong demand and low fuel costs, the company is expected to earn \$3.87 per share in 2015 according to analyst projections. That gives shares a price-to-earnings ratio of just 3.45, which is probably the lowest forward P/E on the entire TSX Composite. Although **WestJet Airlines Ltd.** (TSX:WJA) doesn't trade at quite a low multiple, it still boasts a forward P/E ratio of just 7.5.

You'd think investors would be attracted to such compelling valuations.

There's a reason for such low multiples. Over the years, the airline sector has been notorious for destroying shareholder value. Airlines have tended to load up on debt and other obligations when times are good as well as giving staff too much in salary and benefits. When times get tough and people stop flying, these expenses stay the same while revenue declines.

Still, I'm not sure investors have given airlines enough credit for the changes they've made over the last few years. Both WestJet and Air Canada have made a conscious choice to no longer undercut the other, which has kept domestic fares high. They've also both made more of an effort to charge for auxiliary services, like checking bags. And finally, both have utilized technology to sell customers everything from sandwiches to extra headphones while up in the sky.

This is a smart move by the airlines. Each flight has 100+ passengers on it who have already demonstrated they have disposable income to spare. And if movies and professional sports events have taught us anything, it's that a captive audience will pay a premium for things they value.

But this leaves investors with a bit of a conundrum. They might be bullish on the auxiliary-purchases part of the airline business, but might also be petrified about the other parts. Fortunately, there's a pure play on the good part through **Guestlogix Inc.** (TSX:GXI).

Why Guestlogix?

Upon first glance, Guestlogix is an interesting stock. Shares trade hands for \$0.80 each, and it posted a \$0.08 per share loss over the last 12 months. It only has a market cap of \$108 million, putting it squarely in the small-cap area of the market. It goes without saying that it belongs in the more speculative part of your portfolio.

Still, the company is quietly becoming a force in the industry. Its technology takes care of everything from processing the transaction (or storing it for later if there's no internet connection available) to putting the money in the airline's account. Data is then used to make decisions about what products to carry while on board.

Many airlines have already adopted the company's technology. Both Air Canada and WestJet use Guestlogix, joining **United Airlines**, **Southwest Airlines**, **KLM**, and more than 60 other airlines, hotels, and other vendors.

The industry is moving away from physical payment options and into selling things to customers via smartphones. Customers can do everything from upgrading seats to buying snacks on their phones, so it only makes sense for airlines to let customers do the same thing while in the air. Guestlogix already has software in place that will let customers do that, and is well aware of the future trends.

In an attempt to strengthen its business, Guestlogix recently announced a merger with one of its competitors, Openjaw. Openjaw gives the company not only a greater share of the airline market, but also allows it to get into new areas of business, like working with hotels to offer travelers the ability to purchase passes to local attractions.

Because Guestlogix issued more than 30 million shares to fund the merger, shares have been weak since hitting a peak of \$1.50 back in early 2014. But early results from the merger have been positive, and Openjaw has better EBITDA margins than Guestlogix, which should help improve the bottom line.

The business of airlines selling to customers is a good one, while transporting them isn't. Guestlogix offers investors a pure play into the more attractive part of the business. But like any tech start-up, there's definitely some risk there.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)

Category

1. Investing

Date

2025/09/17

Date Created

2015/07/15

Author

nelsonpsmith

default watermark

default watermark