



Why Airline Stocks Are Finally Good Investments

Description

Airline stocks are typically not viewed as great investment options, despite being some of the best-performing stocks in the market. This is due in part to the wild fluctuations in business cycles that airlines are subject to, which has an impact on costs.

Those costs can be huge. The aircraft itself can cost upwards of US\$200 million and requires highly trained crews in the departure airport as well as in the arrival airport. Airports impose landing fees, and I haven't even touched on the price of fuel.

When times are good, airlines make money, and a lot of it. They use those earnings to upgrade aircraft, build lounges, and add new destinations. Unfortunately, that spending doesn't account for the eventual end of that growth cycle, resulting in airlines posting losses in the billions. That growth could end abruptly too; events such as 9/11 effectively shuttered demand for air travel for months, leaving many airlines with no recourse apart from filing for bankruptcy.

So, what's changed?

Simply stated, airlines have matured. Airlines are more conservative about upgrading their fleets, and they are more aware of the need to keep a strong balance sheet for when that growth cycle eventually ends. It also helps that we are in one of the longest growth cycles the aviation industry has seen in decades.

Even Warren Buffett, who famously referred to airlines as bad investments over a decade ago, has since invested over US\$5 billion into several of the largest carriers in the U.S.

Here are some of the best-performing airlines worth considering.

Air Canada

Air Canada ([TSX:AC](#))(TSX:AC.B) is the largest airline in Canada. It boasts one of the most impressive turnarounds on the market, culminating in the company continuing to report positive results that show growth with each passing quarter.

So, how good has Air Canada performed in the market? In the past 12-month period, the stock has soared over 110%. Looking back over a longer period shows even more impressive, if not astounding, gains. In the past five-year period, the stock has surged over 1,800%. To put that into perspective, a \$1,000 investment in the airline in 2012 would be worth over \$18,000 today.

Air Canada is currently undergoing a fleet renewal which will see the airline operate newer, more fuel efficient aircraft, such as the 787 Dreamliner from **Boeing** and the new CSeries jet from **Bombardier**.

Impressively, Air Canada trades under \$20 and has a P/E of just 7.62

American Airlines

American Airlines Group Inc. ([NASDAQ:AAL](#)) took the throne as the world's largest airline following the merger with US Airways over a year ago. While the company has since been working on maximizing the synergies of merging two massive airlines, the stock continues to offer one of the best returns.

In the past year, American Airlines has seen nearly 48% growth in stock price. Looking out over a longer five-year term shows the stock has doubled in price. American Airlines also offers investors a quarterly dividend, but the paltry \$0.10 per share fails to garner even a 1% yield. Clearly, growth is the main reason to invest in American Airlines.

Like Air Canada, American Airlines is in the midst of a fleet renewal that will see the airline realize fuel and maintenance cost savings over time.

American Airlines trades at just over US\$52 and has a P/E of 12.86.

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