Why This Relatively Unheard of Canadian Airline Remains a Great Play in 2018

Description

With many investors considering the impact an investment in either of Canada's major airlines would have had on their portfolios had they invested in **Air Canada** (TSX:AC)(TSX:AC.B) and **WestJet Airlines Ltd.** (TSX:WJA) only five years ago (hint: five-year returns for both firms were a whopping 1,060% and a respectable 23%, respectively), the question of whether other opportunities exist in Canada's airline industry rarely come up. After all, the two big Canadian airlines are the two big airlines, and if Canadian investors want more exposure to airlines, they'd better head to the U.S. or Europe, right?

I'm going to discuss a relatively unheard of company operating in the Canadian airline industry with a market capitalization of only $1.1 billion: **Chorus Aviation Inc.** (TSX:CHR).

Chorus is in the regional air travel segment, providing regional capacity to Air Canada under a fixed-fee arrangement in which Chorus receives payment for use of its aircraft capacity under the company's Jazz Airlines banner, resulting in a stream of cash flows which are not only predictable but very reliable long term. Due to the massive up-front costs Air Canada has avoided in partnering with Chorus, paying a fixed fee to Chorus for the use of its 113 airplanes seems like a win-win partnership for both firms, and in recent years, this has turned out to be the case.

In addition to providing a regional fleet for Air Canada, Chorus has a maintenance and repair business in which the company provides a host of necessary services for airlines: everything from mandatory inspections to repairs, maintenance work, and upgrades to aircraft can be done by Chorus. Having a vertically integrated business model is a huge asset which should not be understated.

In fact, Chorus recently took vertical integration to a new level, creating a new subsidiary called Chorus Aviation Capital (CAC) to buy and lease regional aircraft to carriers, resulting in many analysts improving their growth forecasts for Chorus's overall business due to the growth potential of this subsidiary.

Bottom line

In the airline industry, nothing is guaranteed, so the fact that Chorus has the bulk of its revenues and profits locked via its fixed-fee contract makes this company a very interesting one to consider. Chorus has traditionally returned a higher net profit margin than Air Canada and WestJet due to the makeup of the company's revenue and its underlying business model, making this company a must-own for investors who believe the rally in Canadian airlines has only just begun.

Stay Foolish, my friends.

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