1 Canadian Value Stock to Play the Rise of Millennials

Description

Millennials are rapidly becoming the dominant generation that businesses are going to need to cater to in order to really thrive over the next decade. Unlike previous generations, millennials have been shown to value experiences over materialistic goods, and that's causing a boon for many industries that are poised to capitalize on a generational opportunity, as millennials continue to garner purchasing power over the years.

When it comes to experiences, it's clear that millennials are willing to open their wallets. And there's no better way to create great memories than by traveling abroad, creating a gigantic opportunity for airlines.

The airlines have been horrible investments in the past. They perform decently during cyclical upswings, but once the economy turns on its head, the airlines implode and go on the brink, as shares plunge at a greater magnitude than the average stock in an index.

Warren Buffett has made his distaste for airline stocks public in the past, but with his somewhat recent bets in various American airlines, it's clear that he sees value in an industry that has typically been a destroyer of wealth for buy-and-hold investors. It's hard to ignore Buffett's airline investments, especially since he's known as a long-term value investor and not a medium-term trader, but what makes the airlines different this time around?

Air Canada (TSX:AC)(TSX:AC.B) is a top airline, but during tough times, the company has flirted with bankruptcy. It's clearly not a stock you'll want to own when things get ugly, but why would you bother owning shares to begin with if you should be recession-proofing your portfolio?

First, the airlines, Air Canada in particular, are severely undervalued. The general public likely knows that airline stocks are disastrous holdings during economic downturns, and they've probably shunned the entire airline industry in spite of any tailwinds or enhancements the industry players may have enjoyed since the last catastrophic implosion. This shunning by the general public is likely a major reason why shares trade at an absurdly cheap trailing 3.45 price-to-earnings multiple.

Second, as the millennial generation continues to get wealthier, they'll have more to spend on travel experiences, leading to a better environment for airlines versus when the baby boomers were the generation that was dictating where a majority of discretionary income was spent.

Third, airlines are becoming more efficient, and the rise of ultra-low-cost carriers (ULCC) are going to allow their airlines to become profoundly more recession-proof than in the past. And that means the next recession may not put the airlines on the brink as they have so many times in the past.

Bottom line

The airline industry is making huge leaps to become “investable” for long-term investors. Over the next decade and beyond, I think bankruptcy-protection filings during recessions are going to become a thing of the past, as the airlines invest in themselves to become more robust businesses with lower-cost operations. They’ll also be operating in a more favourable environment thanks to the millennial generation’s affinity for travel and experiences.

Air Canada may seem like a value trap with its single-digit P/E multiple, but it isn’t. The recent oil-price-induced dip is nothing more than a tremendous entry point for long-term investors looking for deep value, and I think it’s the perfect stock to play the millennial boom over the next decade.

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Date
2025/07/27
Date Created
2018/02/21
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