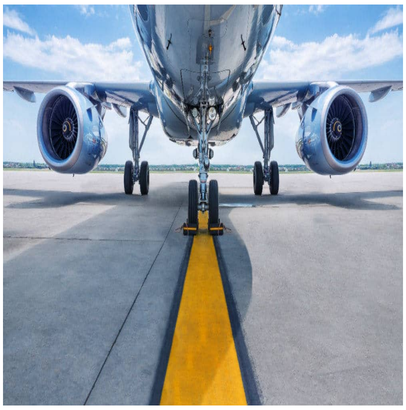

Look for This Private Equity Stock to Jet Higher

Description

The day **Onex** (TSX:ONEX) announced its $5 billion purchase of **WestJet** (TSX:WJA), you just knew **Air Canada** CEO Calin Rovinescu was on the phone to **Transat A.T.** CEO Jean-Marc Eustache about a possible deal.

Suddenly, it seems Canada's airline industry is in play, although many are betting that Onex will have a tough time getting WestJet to where it needs to go to be successful against Rovinescu and Air Canada.

Forget Air Canada. The big play surrounding this deal is to buy Onex stock before it takes flight. And it will take flight. Here's why.

Onex is significantly undervalued

Fool contributor Ryan Vanzo wrote about Onex in late March. He suggested that investors have done well buying the private equity company's stock whenever it's had a significant correction. At the time of Vanzo's article, the stock was down 25% over the previous 52 weeks.

As I write this on May 21, it's down 16% over the past year, having made some gains year to date in 2019. However, it hasn't had an annual total return of 20% or more since 2015 — the last of a robust seven-year run including five years with annual returns of 20%.

Onex is due for a little love from investors. Regardless of what you think of the WestJet buy, Onex is trading at less than book value, with a price-to-cash flow ratio of 5.2. By comparison, **Brookfield Asset Management** has P/B and P/CF ratios of 1.7 and 8.4, respectively.

Either Brookfield is overvalued or Onex is undervalued. I tend to think it's the latter.

What about the WestJet deal?

In June 2018, I'd discussed the reasons why activist investor Silchester International, which owned almost

17% of WestJet’s stock at the time, was so interested in owning the airline’s stock. Nearly a year later, Silchester is still the largest owner of WestJet stock.

At the time, I’d argued that the amendments to Bill C-49 around foreign ownership — foreign entities can now own up to 49% of a Canadian airline, up from the previous 25% — should make WestJet more competitive with Air Canada because it will be able to find deep pockets outside Canada.

Onex likely wouldn’t have been nearly excited about WestJet if it couldn’t sell 49% of the airline to foreign interests to help finance the acquisition.

If you’re not familiar with how private equity works, private equity companies tend to invest 20-40% of their own money into an acquisition with the remaining cost financed by loans. They then work on ways to make the business more efficient while increasing the top line organically and through bolt-on acquisitions.

After three to five years, they sell to a strategic buyer, another private equity firm, or take the company public. There are several businesses in the U.S. that have been taken public and private on more than one occasion. Onex could add WestJet to the list.

With lots of growth internationally and on the discount front with Swoop, WestJet has got a real shot to move out from under Air Canada’s shadow

It will be interesting in the weeks ahead to see what Onex does (assuming shareholders approve the deal’s 67% premium) to move the needle at WestJet. With the changes to the foreign ownership rules, I wouldn’t be surprised if Onex was able to attract some airlines from outside North America to buy 49% of the business.

The bottom line on Onex stock

Regardless of the WestJet buy, Onex is a much better long-term hold than its recent performance suggests. The last time Onex stock traded in the $70s was in May 2016.

As Vanzo suggested in March, Onex remains a great long-term hold that’s currently on sale.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:ONEX (Onex Corporation)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/19
Date Created
2019/05/22
Author
washworth