Brave Investors: You Could Get Rich Buying These 2 Canadian Airline Stocks Today

Description

It surprises nobody that Canadian airline stocks have been crushed during this latest market rout. After all, the sector has numerous things going against it.

These companies suffer from low margins, high fixed costs, and massive capital needed to expand the fleet. Keeping planes safe costs a bunch of money, and unionization of staff makes it hard to lay folks off when times get rough.

These factors combined to keep Canadian airline stocks cheap for years. It was only recently these companies started to do really well.

But it's not all bad news. In fact, some will argue the top Canadian airline stocks are poised to rebound just as soon as COVID-19 concerns are behind us. After a few weeks at stuck at home, I know I'll be ready to travel again.

With this upside potential in mind, let's take a closer look at two different Canadian airline stocks to see whether these companies are a good value today.

Air Canada

Air Canada (TSX:AC)(TSX:AC.B) is our nation's largest airline and up until a few weeks ago was one of the **Toronto Stock Exchange**'s top-performing stocks. Shares have since imploded, falling more than 50% in just over a month.

The stock now trades for around $25; earnings over the last 12 months were well over $5 per share. It doesn't take a math genius to see the stock is cheap on a trailing earnings basis.

Bears will argue trailing earnings are meaningless in this situation, an assessment I agree with except for one important caveat. These earnings show Air Canada's earning power when times are good.And, as you can see, it's substantial. That's good news when this crisis passes.

The issue is whether the largest of the Canadian airline stocks has the balance sheet strength to weather this storm. As of December 31, the company was sitting on nearly $6 billion of cash and short-term investments, which seems like a lot.

It also has $8 billion in long-term debt, however. Could airline bailouts be on the table if things don't start improving soon? That possibility would be good for investors.

Chorus Aviation

Chorus Aviation (TSX:CHR) shares have also been crushed lately. The stock is down almost exactly 50% from its 52-week high, which was set back in January.

On the surface, Chorus looks to be in a little better shape than Air Canada from an operational standpoint. Remember, Chorus operates short-haul flights for Air Canada, with the larger airline taking care of ticketing and other back-end functions.

It's largely business as usual for these flights, even if there are more empty seats than normal. Air Canada's growth has mostly come from international fares.

The big thing making investors nervous about the stock is the aircraft leasing business — something many considered the best part of the company just a few weeks ago.

If weak airliners around the world default on leases and send these aircraft back to the lender, the market could very well be flooded with cheap planes. That would be a terrible outcome for Chorus, which would also lose the lease revenue.

It's not all bad news, however. Similar to Air Canada, Chorus has a decent-sized cash hoard. Most of its airline leasing customers will get through this unscathed, too.

The worst-case scenario might see Chorus cut its dividend, but that's it. All it needs to do is get through the next few weeks and there should be light at the end of the tunnel.

The bottom line on Canadian airline stocks

If I was looking to buy one of the Canadian airline stocks today, I would probably be adding to my Chorus position rather than buying Air Canada. Over the long term, regional flights are the better opportunity. I like that focus.

However, Air Canada has been through all this before and the company is much better prepared than it was for the last crisis.

One thing is certain: You'll need to be a brave investor to pick up shares of Canadian airline stocks right now. There's a lot of uncertainty out there. But there's also a ton of upside potential. These stocks could easily double — or more — once the sector recovers.

The only question is this: Can they survive for that long?

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