Can This Canadian Airline Stock Survive Coronavirus?

Description

It’s been a tough month or so for Canadian airline stocks.

It seems like these companies are dropping big every single day, as new news comes out about the coronavirus and its potential impact on the sector. First it looked like the virus would just cause a travel-related slowdown. Then it morphed into something much bigger, with borders around the world being shut to non-essential travelers. Even short-haul and domestic flight demand has fallen off a cliff.

Naturally, this has driven the price of Canadian airline stocks sharply lower. Investors are concerned about these companies’ long-term viability, especially if travel demand doesn’t snap back sharply.

Let’s take a closer look at one particular Canadian airline stock, **Chorus Aviation** (TSX:CHR). The stock should have major upside potential, assuming it survives the crisis. Just how likely is that outcome?

The skinny

Chorus has two separate divisions. It operates regional flights for **Air Canada** and leases airplanes to other regional airlines around the world. Historically, these two divisions have combined to make the company a solid operator with relatively dependable profits.

In fact, the leasing part of the business is quite interesting. Chorus’s management intentionally works with other regional airlines around the world for a number of different reasons.

Firstly, it understands the regional business, allowing it to do better analysis on its partners. Growth in regional air travel is expected to be solid once the sector recovers. And in a worst-case scenario, Chorus can always use the planes it repossesses from a non-paying customer on its own routes.

During periods of good times, this business combination translated into a solid Canadian airline stock with fairly dependable earnings. In 2019, Chorus earned $0.85 per share, driven by strong earnings growth from the aircraft leasing business. It was just a month ago that Chorus told the market it expected to grow the aircraft leasing business by 20 planes per year.

The company recently reassured investors its liquidity was fine. As of March 18, this Canadian airline stock had a cash balance in excess of $120 million. It's also in the process of borrowing against various assets, which should raise some US$300 million in additional liquidity. Chorus plans to put that capital to work buying new planes to lease back to customers once they get bullish again.

Air Canada risk

Remember, the flights Chorus operates for Air Canada are done with the latter's assets. The fee paid to Chorus doesn't change even though the business looks much different than it did just a few months ago. That is good news for Chorus, and the company is eagerly working with Air Canada on changes to flight schedules.

But it opens a new type of risk: dependency on Air Canada. Will that Canadian airline stock go to zero? Some investors certainly think so.

Will this Canadian airline stock survive?

Things look dicey for Chorus, but this analyst is cautiously bullish. I think this Canadian airline stock will survive. It just might be touch and go for a little while. Also remember that governments around the world are preparing bailouts for the airline industry — something that will help Chorus.

The dividend will likely be a whole different beast. Chorus obviously wants to keep paying the dividend as long as possible, but investors also want it to conserve cash. I would assume the $0.04-per-share monthly dividend from this Canadian airline stock is going to be cut, if not eliminated completely. The market obviously agrees; that's why the yield is more than 17%.

The bottom line

One of the issues with buying Canadian airline stocks today is, we really don't know how quickly travel will bounce back. If we successfully control the virus today, planes will easily be back in the sky by summer, and we'll avoid any major catastrophes.

That's the issue right now. We just don't know.

You could wait until the future is a little more certain, but that would likely mean giving up a big portion of your upside.

So, perhaps the best strategy here is to hold the stock if you have any and refrain from buying if you're looking to get into the sector.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

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1. TSX:CHR (Chorus Aviation Inc.)

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