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This Airline Has a Better Risk/Reward Tradeoff Than Air Canada (TSX:AC)

Description

As the stocks look to bounce back after one of the worst market meltdowns since the Financial Crisis, many investors are looking to the airline stocks for a chance to make quick gains in a V-shaped market recovery. Given the **TSX Index** has already bounced over 26% off its late-March bottom, it seems as though the market bottom is already in, and it's "safe" to get back in the equity market waters.

The airlines took a massive beating amid the coronavirus crisis. Travel restrictions and the fear of catching COVID-19 will send top-line numbers of the commercial airlines nosediving for the coming quarter. But this dire news is already baked into the stock, right?

Although it's likely that a majority of the damage to airline stocks is already done (**Air Canada** (TSX:AC)(TSX:AC.B) stock has already fallen over 75% from peak to trough), investors need to realize that there are still a tonne of uncertainties that could stand to derail the heroic airline investment thesis at this juncture. Just because a name like Air Canada has halved twice doesn't mean it can't happen again in a worst-case scenario.

The commercial airlines haven't been cleared for take-off yet

Many pundits believe that businesses will re-open in May (or June), but for the commercial airlines, tickets will probably be a "tough sell" well after the infection curve has "flattened." As long as there's *some* risk of contracting the deadly coronavirus, many will be reluctant to travel, whether it be for business or pleasure.

If the coronavirus ends up being seasonal in nature and a vaccine is developed later rather than sooner, even the more liquid airlines like Air Canada could be headed for another tailspin, potentially to single-digit territory.

Sure, Air Canada stock has massive upside potential for those willing to bear the equally huge risks,but I'd argue that the average risk-averse investor would be better off not playing the outcome of the coronavirus over the near term. The downside risk is just too great for those allergic to off-the-charts volatility.

Cargo airlines are a less-risky bet than commercial airlines

Consider shares of a cargo airline like **CargoJet** (TSX:CJT), which will be able to operate in a somewhat routine fashion, even if the coronavirus pandemic drags on for longer than most are expecting.

CargoJet doesn't transport people; it transports goods.

During a pandemic, when brick-and-mortar retail stores are being shuttered and everybody is encouraged to stay at home, the demand for overnight shipping services will remain stable. And should a coronavirus resurgence end up happening at some point over the next few months, CargoJet won't see its revenues fall off a cliff like with the commercial airlines.

Shares of CargoJet crashed 39% from peak to trough amid the coronavirus crash but were quick to bounce back, as investors recognized that CargoJet was actually a relatively COVID-19-proof investment, unlike the commercial airlines.

Foolish takeaway

At the time of writing, CargoJet stock is off just 5% from its all-time high.

Although the name is pretty expensive at 68 times next year's expected earnings, I'd argue it's far better to pay up for a resilient name that isn't dependent on the outcome of an exogenous event for its survival. CargoJet is riding on a secular e-commerce tailwind and will continue to fly high, as its commercial peers grind to a halt.

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Date
2025/08/25
Date Created
2020/04/14
Author
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