



Forget Air Canada (TSX:AC): Why I'm Buying Chorus Aviation (TSX:CHR) Instead

Description

Air Canada ([TSX:AC](#))(TSX.AC.B) gets all the investor attention, but I think these folks are misguided. I'm much more bullish on **Chorus Aviation** ([TSX:CHR](#)).

I can see why investors would automatically zero in on Air Canada. It's our nation's largest airline with a dominant market share both domestically and internationally. Its chief rival continues to be Westjet, but that company was recently acquired by **Onex**. There's really only one obvious option for investors who want exposure to this potentially lucrative sector.

There's also the possibility of bailout money coming for the airline sector, and Air Canada has already taken advantage of government payroll assistance programs to keep a big chunk of its staff.

The only issue is, [as I explained in a previous article](#), there's no way to tell whether a potential bailout will help Air Canada shareholders, or dilute shares significantly. Remember, the latter happened in 2008-09 with the big bank bailouts in the U.S.

Additionally, investors have to *like* the improvements that Air Canada has made over the last few years. The company has done a nice job generating additional revenue, selling everything from snacks to Wifi connectivity on board its planes. Luggage fees have also been a big contributor to the top line, and the introduction of premium economy has also helped.

Ultimately, however, I think there's just too much uncertainty surrounding Air Canada. The company will have significant liquidity issues if air travel doesn't return to previous levels in a hurry. That's why I'd recommend investors looking to play the sector check out Chorus Aviation instead.

Why Chorus Aviation?

There's two parts to Chorus' business. First, the company operates regional flights for Air Canada and also has an airplane leasing business.

Let's start with the regional airline part of the company. Remember, Air Canada takes care of everything from the flight schedules to the ticketing. All Chorus does is fly the airplanes, which means revenue and earnings from this business are much steadier than if Chorus ran an airline itself.

But the really interesting part of Chorus Aviation's long-term success is the company's aircraft leasing business. Chorus has leveraged its knowledge of the business into a rapidly growing segment that purchases planes for other regional carriers. It then leases these planes back to these operators, usually at an 8-10% return.

Why leasing is best

The beauty of this business is the protection it offers. The plane is the asset here; the credit worthiness of the underlying airline is secondary. Even if the operator goes bankrupt, the value of the plane itself is unaffected. Remember, [the long-term outlook for regional travel](#) still looks strong. Today's weakness is just a short-term blip.

In fact, Chorus Aviation's largest aircraft leasing customer will soon be Air Canada as the latter looks to expand its regional network without using up too much of its own capital. Other customers are spread through Europe, Asia, Australia, and even into Africa.

Chorus recently told investors it was suspending its dividend, but I suspect this will only last a few months. It's a move designed to save money, a prudent step to take in today's market.

Chorus has also explored various ways to get access to credit, including drawing down its credit facilities and negotiating with lenders for loans secured by some of its unencumbered planes. These moves should be enough to ensure Chorus has the cash to get through this crisis.

The bottom line

Chorus Aviation continues to be my favourite stock in the sector. I like the company's focus on regional travel — something I think recovers faster than international routes.

The aircraft leasing business should bounce back nicely with the overall sector. In fact, I can envision a world where more airlines start leasing planes.

Ultimately, it comes down to this. I own Chorus Aviation shares, and recently averaged down to buy more. There's nothing that can substitute for skin in the game.

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