



Buy Alert: Chorus Aviation (TSX:CHR) Just Cratered 69%

Description

The market crash has created dozens of bargains. The airline industry in particular has been hit hard. Stocks like **Chorus Aviation Inc** (TSX:CHR.B) have shed nearly 70% of their value. If you're looking for high-upside stock picks, pay close attention.

The [bear market](#) has, of course, been spurred by the coronavirus pandemic, sending air traffic [spiraling](#). Carriers like **Delta Air Lines** are reportedly burning \$50 million every day. The entire industry will need a global bailout.

But air traffic isn't disappearing altogether. Population growth and rising incomes across large parts of the world still create a massive long-term growth headwind; more than 80% of the entire world's population has never stepped foot on a plane.

A few years from now, the airline industry could be bigger than ever. A decade from now, investors might wonder how they missed out on such a clear buying opportunity.

If you're willing to be patient, there could be plenty of long-term upside in air transport stocks, specifically Chorus Aviation.

It's not all bad news

The airline industry has been a hot spot for difficult times. For nearly a century, it was investor suicide to touch these stocks.

"It's true that the airlines had a bad 20th century," Warren Buffett told *CNBC*, "I think there have been almost 100 airline bankruptcies. I mean, that is a lot. It's been a disaster for capital."

In a letter to investors in 2007, Buffett wrote, "If a farsighted capitalist had been present at Kitty Hawk, he would have done his successors a huge favor by shooting Orville down."

But in 2017, Buffett started *buying* airline stocks. Today, he's one of the top investors in four different

airlines. “They’re like the Chicago Cubs. And they got that bad century out of the way, I hope,” Buffett explained.

What does Buffett see in the industry? “The hope is they will keep orders in reasonable relationship to potential demand,” he said.

It’s actually a simple bet. For years, there were dozens of airliners competing heavily for each route. Aircraft utilization was quite low, pressuring profits. After a period of consolidation, Buffett is betting that the industry will operate rationally.

The current pandemic could actually benefit airline stocks, especially companies like Chorus Aviation. That’s because many large competitors could go bankrupt, consolidating the industry even further, which could boost profits and market share for the remaining players.

Chorus Aviation can profit

Chorus Aviation is a small company. Before the crash, it had a \$1.3 billion valuation. That price tag is now down to \$470 million. Its diminutive size makes it easier for the market to ignore its diversified advantages.

The company operates several business segments, including aircraft leasing and regional aviation services.

Its regional aviation services focus on contracted flights with **Air Canada** under the Air Canada Express brand. This is typically a reliable revenue stream, with 90% of sales secured through long-term contracts.

When the pandemic eases, cash-strapped airliners like Air Canada will be significantly more likely to contract with Chorus Aviation to cut costs.

The aircraft leasing business could also see a boost in demand. The company owns a very young fleet of aircraft, with an average age of just 3.2 years. This is another case where financially-pressured airlines could rely more on aircraft leasing versus buying outright.

There’s no doubt that Chorus Aviation has entered a period of uncertainty. The entire industry is grappling with what happens next. But this company’s business model could eventually *gain* in value once we exit the pandemic.

Its small size has caused shares to fall more than the competition, but patient investors can capitalize with a long-term bet.

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