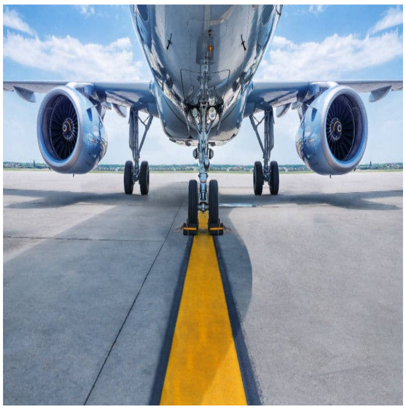

Don’t Buy Air Canada (TSX:AC): Buy This Stock Instead

Description

Air Canada (TSX:AC) stock has been pummelled during the market crash. Even after a slight rebound, shares are still more than 60% off their highs. Value investors are jumping in, but there’s a **TSX** airline stock that’s *even better*.

This alternative to Air Canada stock is much smaller, with a market valuation of just $450 million, which is likely a big reason why shares have fallen more than the competition since the coronavirus pandemic began. Year-to-date, this stock is down nearly 70%.

While you may be compelled to buy Air Canada stock, you should consider buying the superior option: **Chorus Aviation Inc** (TSX:CHR).

The difference is clear

Air Canada is a quality stock. Before the pandemic began, shares had risen by 1,800% in just eight years. Revenues and profits were on the rise, and the company commanded a dominant domestic market share. Along with WestJet Airlines, just two carriers accounted for roughly 70% of Canada’s flight traffic.

There’s a good chance that you’ve taken an Air Canada flight. But have you flown with Chorus Aviation? Your initial answer is likely *no*, but I wouldn’t be too sure.

Chorus Aviation isn’t a pure-play airline. Its two major segments are regional aviation services and aircraft leasing.

Let’s dive into both.

Its regional aviation services are conducted through its Jazz and Voyageur subsidiaries. These businesses operate charter flights, but also more specialized services like medical and government transportation. More important, they work with Air Canada directly to service some of its regional routes.

If you’ve ever flown on a smaller, regional flight in Canada, you’ve likely flown on a Chorus Aviation plane, even if the carrier name was Air Canada. The company operates nearly 80% of all Air Canada regional flights. In essence, Chorus Aviation is a secret version of Air Canada.

The other business segment is aircraft leasing, generating a smaller amount of profit than regional aviation services, but it’s still a money maker. Rather than buying aircraft outright, airlines can enter a long-term contract to lease the plane from Chorus. This segment now operates 64 aircraft around the world, with $940 million in committed revenues.

Better than Air Canada

What exactly makes Chorus Aviation a better buy than Air Canada? A few things.

First, the company could see demand for its services grow over the coming years, even with the coronavirus pandemic continuing. That’s because more than ever, airlines will be searching for ways to reduce costs.

Contracting with a regional aviation service allows an airline to service more routes without committing additional plans and headcount to these efforts.

Additionally, aircraft leasing could see a long-term bump in demand, although near-term demand will undoubtedly be hit. As is the case for regional aviation services, aircraft leasing allows an airline to free up capital, spreading out the expense over a long-term contract.

With a proven ability to execute and existing relationships with more than 100 carriers worldwide, Chorus Aviation is in a good position to seize on this opportunity.

The final consideration is valuation. After the drop, Air Canada’s price-to-book ratio has dropped to just 1.1 times. That’s a bargain compared to its historical range, but Chorus Aviation has seen its valuation compress even further to just 0.77 times book. That’s a 30% discount versus Air Canada.

Why is Chorus trading at a bigger discount? Name recognition is likely a factor. But as we’ve seen, Chorus actually benefits directly from Air Canada’s success, even if its name isn’t listed on the ticket.

The second factor is size. Chorus is 90% *smaller* than Air Canada, leading to a small-cap discount.

The future of the aviation industry is still unclear, but if you’re taking bets, pay close attention to unheralded stocks like Chorus Aviation.

CATEGORY

1. Coronavirus
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2. TSX:CHR (Chorus Aviation Inc.)

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