Forget Air Canada (TSX:AC): Buy This Travel Stock Instead

Description

Air Canada (TSX:AC) has been investors' top travel stock choice — on this side of the border at least — and it's easy to see why.

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The logic behind an Air Canada investment is simple. Travel will eventually recover, likely faster than all the naysayers predict. All it needs to do is survive this crisis and it'll be fine. Most folks predict there's no way the government will let our nation's largest airline declare bankruptcy, so they're bullish.

But I'm not sure the thesis will play out that smoothly. Remember, Air Canada has already gone bankrupt, and there could be advantages to going through the process again.

The company does have more than $3 billion in net debt, after all. There's also no guarantee a bailout would be good for common shareholders. Government assistance is designed to help keep jobs, not backstop investors.

Besides, I think there's another Canadian travel stock investors should consider, a company that might even offer more upside potential than Air Canada. Let's check it out.

Invest in hotels

Investors shouldn't just be checking out airline stocks. Hotels are similarly beaten up, and are facing many of the same challenges.

The hotel industry is much more fragmented than the airline business. Even big brands don't typically operate their own hotels; they franchise the business to scores of different entrepreneurs. This makes a wholesale bailout of the hotel business impossible.

Thankfully, the industry doesn't necessarily need it. Most hotels remain open, although occupancy is quite weak. But hotels have been able to lay off staff and take other measures to cut costs.Additionally, lenders are being smart by giving the industry a pass on paying back mortgages for theforeseeable future.

All of this translates into good news for **American Hotel Income Properties REIT** (TSX:HOT.UN), which is probably my favorite travel stock on the Toronto Stock Exchange today.

American Hotel Properties owns 79 different hotels in so-called secondary cities, places like Pittsburgh, Tampa, and Baltimore. While these cities may not be tourist meccas, they get steady traffic from business travelers. Additionally, most hotels are on major transport routes, which also helps occupancy.

The company has been a growth-by-acquisition story over the last few years, transforming the portfolio by purchasing higher-end hotels. The company was a disciplined buyer, always buying below replacement value and insisting on a cap rate of greater than 8%.

But the main reason why American Hotel Properties remains my favourite travel stock today is its dirt-cheap valuation. If you think Air Canada is cheap based on trailing earnings, you'll be shocked at this stock.

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Valuation

As I type this, American Hotel Properties shares are trading at a mere 30% of book value. That alone is insanely cheap.

But it gets better. Last year the company earned US$0.70 per share in funds from operations, which translates into approximately $1 per share in Canadian currency. Shares, meanwhile, trade for just over $2.30 each on the **Toronto Stock Exchange**. That's right; this stock trades at just over 2 times trailing earnings.

Yes, I'm the first to admit this company won't earn nearly that much in 2020. The bottom line may not even recover substantially in 2021, either. But I am confident its long-term earning ability will bounce back to 2019's levels — and then some. It'll just take time for this travel stock to return to normal.

In fact, I can easily envision a world where this travel stock trades at the $8-$10 per share level. Yes, the name is risky, but it has that kind of upside potential. Management surely agrees; many insiders were aggressively buying the stock in late March.

The bottom line on this travel stock

If you're looking for a travel stock to buy, forget about Air Canada. I think American Hotel Properties is the better choice.

The company is well positioned to make it through this crisis — assuming lenders give it a little help. Investors are also treated to a dirt-cheap valuation and a bunch of bullish insiders. Those two thingsare usually a good sign.

And remember, American Hotel Properties shares were in the $7 range before all this COVID-19 chaos hit the market. Shares could easily get back to that lofty level again.

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