Forget Air Canada (TSX:AC): Here's a Better Way to Play an Airline Comeback

Description

You don't need to be a hero by jumping into **Air Canada** stock to make a fortune off the epic fall of the airlines.

There remain many uncertainties relating to the coronavirus (COVID-19), even though the spread has shown signs of slowing. Travel bans, restrictions, and deteriorating liquidity make the airlines a speculation that may not be suitable for a majority of investors. While there may be deep value to be had in Air Canada stock today, there's still no telling when the airlines will make a full return to normalcy, and that makes them very difficult to value, even at today's depths.

If you're looking to play an airline comeback but don't want to risk your shirt over the intermediate term, consider shares of flight simulator and modelling technology manufacturer **CAE** (TSX:CAE)(NYSE:CAE), which are currently down 54% from their pre-pandemic highs.

CAE gears up for the next wave of the coronavirus as the airlines crumble

The company recently announced new measures in response to the insidious coronavirus, including the furlough of 2,600 employees and the suspension of the dividend, both of which are to free up around $29 million worth of cash every quarter.

CAE has a 1.1 debt-to-equity ratio, which is a tad on the higher end, and $2.6 billion worth of total debt. The $29 million per quarter in savings gives the company a decent liquidity standing that will allow it to survive the coronavirus onslaught.

For now, broader airline pressures that will continue to weigh on CAE's primary business (aviation simulators accounted for nearly 60% of CAE's business last year), but the company does have defence and healthcare divisions that fellow Fool contributor Chris MacDonald sees as being heavily discounted by investors amid these turbulent times.

"CAE has a defence division which has benefited from increased defence spending courtesy of the Trump Administration and a push for increased NATO spending." said MacDonald in a prior piece.

CAE stock is an airline play that's too cheap to ignore

At the time of writing, CAE stock trades at 2.2 times book, which is close to the lowest it's been in recent memory.

There's no question that the company will take a blow, as its civil aviation customers gear up for what could be another few quarters' worth of pain. But as bailouts are doled out across the airlines while the world makes steps to inch closer towards normality, I believe that spending on essential civil aviation training services will bounce back in due time.

In the meantime, the defence sector should keep CAE buoyed relative to its more vulnerable airline peers that are effectively at "ground zero" of the coronavirus pandemic.

Foolish takeaway

Chris MacDonald says that CAE is the only airline play he'd invest in, and I think he's right on the money. CAE provides the upside of an airline while providing a bit more visibility thanks to its diversification in defence. While CAE may be tricky to value given uncertainties relating to the coronavirus, I see it as more of an investment and less of a speculation compared to the likes of a cash-strapped airline.

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