



Forget Air Canada (TSX:AC): Why I Own These Other 2 Travel Stocks Instead

Description

Much [has been written](#) about **Air Canada** ([TSX:AC](#)), yet many investors prefer other travel stocks instead.

It's easy to see why the average person is excited about Air Canada. It's easy to envision the world returning to normal as soon as we have this virus conquered, something that could realistically happen by the end of the year — or even sooner.

Many investors also believe Air Canada simply won't be allowed to slip into bankruptcy. It's already being propped up by various stimulus programs. Prime Minister Justin Trudeau is generously giving out cash to seemingly everyone. What's a few extra billion to Air Canada, especially if there's a high probability it gets paid back?

It appears the market believes Air Canada is relatively safe too. Shares have traded in the \$15-\$20 range since the middle of March, essentially treading water until we get more certainty about the future. It's easy to envision shares rocketing higher once we start thinking about removing travel bans.

The airline business is also more resilient than many people give it credit for. Worldwide air travel rebounded to pre-9/11 levels by the end of 2003, while recovery from the 2008-09 financial crisis was also swift.

Still, investors must remember that there are other travel stocks out there, ones with perhaps more upside potential. Here are two I personally own.

Chorus Aviation

Chorus Aviation ([TSX:CHR](#)) consists of two businesses wrapped up in one interesting stock.

The main part of the company operates regional flights for Air Canada. This division has ground to a virtual halt today, but should be one of the first parts of the airline business to open back up. And remember, Chorus only operates the flights. Air Canada still takes care of all the other stuff, such as

ticketing, processing payments, and so on.

The second part of this travel stock is more interesting. It buys planes for other regional airlines around the world, leasing these assets to these other companies. The advantages to this strategy won't go away in a post-COVID world, and the underlying plane still has value today. And before the airline industry shut down, this part of Chorus's business was growing at a nice clip.

Chorus also looks to be well positioned to weather this storm without having to resort to a government bailout. It has more than \$250 million in cash and undrawn credit facilities and has suspended its dividend. That move alone will save the company \$55 million per year.

Remember, Chorus made \$0.85 per share in 2019, putting this travel stock's trailing price-to-earnings ratio at just 3 times.

American Hotel Properties

American Hotel Income Properties REIT ([TSX:HOT.UN](#)) owns 79 hotels in so-called secondary cities in the United States, with locations in places like Pittsburgh, Cincinnati, and Baltimore. These locations aren't so tourist oriented, which means they should bounce back a little more quickly as business travel opens back up again.

Short-term results are likely to be abysmal for this hotel owner, but it's not all bad news. Lenders should be quick to offer mortgage relief, and the company has been quick to cut costs. Most hotels have remained open, and occupancy rates so far in May are close to 40%. While that's still not high enough, it's a nice improvement over April's numbers.

This travel stock is also trading at a dirt-cheap trailing valuation. In 2019, the company generated funds from operations — a REIT's version of earnings — of US\$0.70 per unit. That translates into \$0.99 per unit in Canadian Dollars.

Meanwhile, this stock trades at just over \$2 per share at writing. It doesn't take a math genius to see the value here — assuming earnings ever bounce back.

The bottom line on these travel stocks

[Air Canada](#) might turn out to be an excellent choice, but I'm going down a different path for my own portfolio.

Chorus and American Hotel Properties have just as much upside potential, plus both stocks should reinstate their dividends once the world gets back to normal. I like that combination.

CATEGORY

1. Investing

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1. TSX:AC (Air Canada)

2. TSX:CHR (Chorus Aviation Inc.)
3. TSX:HOT.UN (American Hotel Income Properties REIT LP)

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