Market Crash 2020: Is it Safe to Buy Canadian Airline Stocks?

Description

Airline stocks fared worse than most equities in the 2020 stock market crash. Whereas the TSX fell 37% from top to bottom, followed by a recovery, **Air Canada** (TSX:AC) fell 68% for the year and remains down. It's a similar story with U.S. airlines. The situation has gotten so bad that Warren Buffett recently exited airlines entirely, citing long-term headwinds. Around the same time, Air Canada released a quarterly report stating that it didn't expect to reach 2019 revenue levels for another three years. For investors, that's a grim prospect.

However, the question arises: Is it time to buy airlines on the dip?

Although airlines are facing long-term pain, they will eventually recover. Their services are simply too important for them to be left to die. If an airline like AC really needs a bailout, it will probably get one. Knowing this, you may be tempted to buy such stocks on the dip.

It would be wise to take a breather before doing that. Although, historically, low stock prices can be tempting for dip buyers, the headwinds facing airlines are going to last a long time. A surge back to all-time highs is not in the cards — at least not soon. Additionally, it's possible that a future bailout could dilute equity and make airline stocks worth less.

With that in mind, the following are a few things to be aware of if you're considering buying airline stocks after the 2020 market crash.

Why airlines have fared poorly

The big reason why airline stocks have fared poorly is because their revenue is down with no chance of a quick recovery. In its most recent quarter, Air Canada lost $1.05 billion and saw revenue decline by $712 million. That was with only one month of travel bans. In Q2, with three full months of lockdowns in the picture, revenue will be even lower.

And it's not clear that revenue will jump when the lockdowns are over. Individual travellers may remain wary, even after travel is technically permitted. The possibility for prolonged lower passenger miles was one of the reasons Warren Buffett sold all of his airline stocks.

Not all airlines are created equal

With all of the above being said, it's important to remember that not all airlines are created equal.

If you look at a company like **Cargojet** (TSX:CJT), it's a night and day difference compared to Air Canada. As a cargo airline, it ships goods, not people. As a result, it has been able to operate normally through the COVID-19 pandemic.

In fact, it has not only survived but thrived. In its most recent quarter, CJT posted a 12% increase in revenue. That was accompanied by a 51% improvement in gross margin and a 24.5% increase in adjusted earnings.

It was all thanks to e-commerce. As a cargo airline specializing in small shipments, CJT ships a lot of e-commerce packages to their destinations. In the initial COVID-19 lockdowns, e-commerce orders surged, thanks to the closure of retail businesses. CJT predictably profited from the trend. After the lockdowns have passed, the Q1 order spike will probably simmer down. But thanks to the long-term growth in e-commerce, CJT is poised to thrive.

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