Is Now a Good Time to Buy Airline Stocks?

Description

Airline stocks have suffered more than almost any other industry in this pandemic. **Air Canada** (TSX:AC) is still bleeding over $20 million a day, and operating on a mere fraction of its total capacity. But after some of the slowest weeks in the company's history, the stock has finally seen some action and has pushed past the $20 price tag.

Similarly, **Chorus Aviation** (TSX:CHR) has also seen a relatively strong month, and the stock grew by about 35%. While both companies are trading way below their pre-crash values, the current rally and budding optimism surrounding the industry might be powerful enough to revert the direction of the stock movement — for good this time.

Does that make it a good time to buy airline stocks?

The case for Air Canada

Air Canada has shown great resilience during this pandemic. The company refused to go down and took some harsh steps to stay operational. That included laying off half the staff. It has also grounded most of its fleet, issued bonds and stocks to raise cash, and cut its aircraft deal with **Boeing**. But the company isn't backing out of its Transat deal, which will solidify its commercial air superiority in the country.

Air Canada is on the road to recovery, but that recovery may not be as swift as some investors might expect. The company itself put its prospects of reaching pre-crash levels three years in the future. The real timeline might actually be even further in the future. And even if the company starts operating at its full capacity, there is no guarantee that the stock will be as strong as before or grow as rapidly as it did before the crash.

If you are willing to hold on to this growth stock for at least five years before seeing any substantial returns, then now may be a very good time to buy.

The case for Chorus Aviation

Another airline stock that investors might want to consider is Chorus Aviation. It's a smaller stock compared to Air Canada, with a current market cap of just $628 million. The company has accumulated $2 billion in debt and is currently holding on to just $90 million in cash, which doesn't paint a very flattering picture of its short-term prospects. However, its net property and equipment seem sizeable enough to cover its long-term debts.

Chorus was never in the same league with Air Canada when it came to capital growth. The stock has barely grown 34% in the past five years, before crashing down. It used to pay monthly dividends, which it has also suspended for the foreseeable future. The only good reason to buy Chorus Aviation would be its low valuation, but its future growth prospects might be even grimmer than Air Canada's.

It's smaller, therefore more agile. But the debt it has accumulated and its dependency on Air Canada for most of its cash flows might mean an even slower recovery than the country's premier airline.

Foolish takeaway

If you are looking for fast or explosive growth, then no, it might not be a good time to buy airline stocks. Airline stocks might not reward its investors with fast-paced growth in the near future. But if you want to benefit from low valuation and don't mind holding on to the stock for a long time, then it may be a good time to buy Air Canada.

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2. TSX:CHR (Chorus Aviation Inc.)

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